January 2024

Strategy Implementation Plan 2024-26

European Bank
for Reconstruction and Development

PRESIDENT'S RECOMMENDATION

I **recommend** that the Board of Directors approve together:

- an administrative expenses budget of £515.9 million (€603.6 million), comprising a:
  - core administrative expense budget of £479.3 million (€560.8 million) and
  - extraordinary budget items of £36.6 million (€42.8 million)
- the parameters and objectives contained in the 2024 corporate scorecard.

Odile Renaud-Basso

Executive summary

The Strategy Implementation Plan (SIP) 2024-26 supports ambitious business objectives in Ukraine and on climate finance, while focusing on quality and efficiency of delivery

Further support for Ukraine and countries affected by the war forms a critical part of the EBRD's delivery programme in 2024 and beyond. Since the war began on 24 February 2022, the EBRD, in partnership with donors, has deployed over €3 billion of financing in Ukraine to meet urgent funding needs of many private companies and support energy and other critical infrastructure.

Annual Bank Investment (ABI) in Ukraine is expected to be maintained at a rate of €1.5 billion in 2024, subject to developments in the war, rising to €2.5 billion per year from 2025. This is a very significant increase, and is underpinned by a €4 billion paid-in capital increase, allowing the Bank to support Ukraine through the war and during the eventual reconstruction.

The EBRD is not only strengthening its response in Ukraine, but is setting progressively more ambitious business goals for the overall volume of its projects, as well as for the quality of their delivery and the effectiveness of related policy engagements. The Bank is thus **raising the range for ABI by €1 billion in 2024 to€11.5 billion to €12.5 billion**. Despite anaemic growth in the EBRD regions, demand for the Bank's finance remains strong. Country strategies will be an important vehicle for deciding on needs and tackling development gaps via investments, targeted policy advice and sector support, and will drive up the quality of the Bank's response and engagements.

The Bank has also heeded the call from the G20 for better leveraging of multilateral development bank (MDB) balance sheets and the mobilisation of private finance for development. Next year the **Bank is raising its private direct mobilisation target to €2 billion. This is 40 per cent higher than the 2023 target and meets the Strategic Capital Framework (SCF) goal a year ahead of schedule.** Policy commitments made as part of the GCI will increase the EBRD's mobilisation target to €2.5 billion per annum by the end of 2025.

In total, own account and directly mobilised EBRD financing in 2024 is planned to be between €13.5 billion and €14.5 billion. Furthermore, the amount of financing made available to countries of operation once private indirect mobilised finance is included would be significantly higher, given €13.8 billion of indirect private mobilisation by the EBRD in 2022.

At least half of the mobilisation of private finance will be for Green Economy Transition (GET) projects. This matches the declared SCF aim of being a majority green bank by 2025, a position reached in 2022 whereby the EBRD financed more than €6 billion, or 50 per cent of ABI, in GET projects using its own finance, another record amount. The Bank is on track to achieve a similar volume this year. In 2024 and beyond, the Bank will scale up its systemic green impact to develop country sector platforms, build on its Adaptation Plan, expand renewable energy and green capital markets and enhance the Green Cities programme.

To reflect the importance of climate finance in the EBRD's business plans, **the Bank proposes to bring forward the SCF end-goal of at least 50 per cent of ABI devoted to GET by one year. In 2024 therefore, the Bank will aim for at least 50 per cent of ABI and annual mobilised investment to be GET finance.** In addition, all EBRD projects are Paris Aligned and considerable resources are devoted to compliance and measurement issues, reflecting the increasing pressures in this area which are expected to grow with the forthcoming sustainability reporting requirements under the International Sustainability Standards Board (ISSB) and the EU Corporate Sustainability Reporting Directive (CSRD).

Scaling up gender-smart climate investments and just transition, which form part of the Equality of Opportunity and Gender strategies, also contribute to the green agenda. Implementation of these strategies over the rest of the SCF period will provide further support for human capital resilience in Ukraine, expand green and digital skills programmes and deploy help to communities hit by disasters such as the recent earthquakes in Türkiye and Morocco.

In 2024, the Bank will expand the coverage and mainstreaming of gender and equality of opportunity activities and pursue a **higher target for gender-tagged operations of 35 per cent of operations (up from 30 per cent in 2023),** building steadily towards the 40 per cent aim by 2025 advocated in the SCF. Elsewhere, among other scorecard targets, the **private sector share objective of 75 per cent is unchanged**.

Higher business volumes could not be achieved without the generous actions of donors. In a generally difficult fund-raising environment, indicative donor funding plans for use in 2024 and beyond look healthy, helped by important and sizeable support from the EU. Calculations based on expected investments and their geographic distribution show the need for donor funding to leverage the impact of the EBRD's own activities in 2024 remains at over €2 billion.

Donor support is particularly important in countries which are less advanced in their transition towards sustainable market economies. The Bank will keep its focus on helping these countries and retain its target of allocating **48 per cent of ABI to the early transition countries (ETCs), the Western Balkans and the southern and eastern Mediterranean (SEMED) region** in line with its long-term vision. Reaching it in 2024, given the substantial investment effort outside these regions, including in Ukraine and other countries affected by the war, will nevertheless once again be challenging. However, **more than half the number of projects to which the Bank commits in 2024 are expected to be made in these countries**. These are typically much smaller and more labour-intensive than projects elsewhere, and thus costly to manage, implying that a majority of operational resources is expected to be devoted to this group of countries.

Digitalisation offers both opportunities and challenges for economic development and the Bank itself. On the transactions side, the "digital hub" will continue to coordinate and promote Bank activities in the digital space in 2024 through new products and advice to clients, for example on the use by small and medium-sized enterprises (SMEs) of cloud computing and improving cybersecurity. Internally, digitalisation is changing how the Bank manages itself as it modernises its processes and capabilities. This is primarily through the Multi-Year Investment Plan (MYIP) and the Transformation Agenda, which promise further improvements in 2024 and beyond.

The increasing complexity of the EBRD's business, including compliance with a raft of evolving external practices and disclosures, requires significant investments in less glamorous but important back-office and related support activities. Efforts on integrity and screening issues, financial and data management, reporting requirements, internal investigations and so on, grow with the higher volume of business and to meet accountability needs. The Bank is investing in many of these areas, alongside MYIP, to reinforce its delivery capacity and improve operational sustainability.

The MYIP was introduced to address legacy problems from outdated operating systems and platforms. The Transformation Office, in managing MYIP, is helping to bring forward modernisation initiatives to improve a swathe of internal Bank processes and procedures as well as enhance the experience of users. Now in its third phase, improvements from MYIP, such as the on-line platform Monarch, the introduction of Microsoft 365 and other initiatives, are yielding dividends through greater cost and process efficiencies, and resulting in a moderation of the Bank's high operational risk profile. Plans are in place for Phase 4 to start next year, which is designed to improve user experience and enhance knowledge management. **SIP 2024-26 confirms Phase 4 capex of £16.2 million with up to £3.8 million of investment proposed in 2024**.

Financial projections based on planned business volumes – including the proposed acceleration of investments in Ukraine and a limited and incremental expansion to sub-Saharan Africa and Iraq from 2025 – and related financial assumptions show that the **EBRD's finances are sustainable over the SIP period but not without risk in the event of a severe downturn**.

Members' equity after income allocations is expected to grow steadily, capital utilisation (under the Bank's statutory policy) rises modestly and the Bank's financial metrics generally remain within key rating agency thresholds. However, under simulated downside scenarios, the level of risk accepted under the business plan is the highest since formal stress testing of the SIP began and several key financial metrics would be breached under the “severe” stress test scenario. In such circumstances and in the absence of shareholder support, the Bank’s triple-A rating might have come under significant pressure. However, the approval of the €4 billion paid-in capital increase significantly improves this balance of risks.

After a substantial loss of €1.1 billion in 2022, the EBRD returned to strong profitability in 2023. A more moderate performance (a return of 7.1 per cent) is expected next year and means the **three-year rolling average rate for return on required capital (RoRC) is projected to be 5.9 per cent in 2024. This is above the long-run average minimum return of 3.5 per cent set in the corporate scorecard.** Annual returns are projected to remain above 3.5 per cent in 2025 (6.4 per cent) and 2026 (5.6 per cent). The target for the debt return on required capital, which focuses on the more stable part of Bank income, is set at a minimum of 9 per cent for 2024.

After last year’s moderate borrowing programme, planned activity is higher in 2024, reflecting increased business needs and larger debt servicing requirements, with a proposed **borrowing programme of up to €13.5 billion**, of which €12.5 billion is expected to be used under the base case plan. Liquidity ratios maintain a comfortable buffer above required minimum levels, meeting the relevant stress tests, and net cash requirements are well covered.

SCF resource control parameters are projected to be met throughout SIP 2024-26. The cost to debt income ratio is expected to rise to 63 per cent in 2024 (from 59 per cent in 2023) as inflation and MYIP investments push up costs more quickly than the growth of debt income. A further small increase to 66 per cent in 2026 is projected due to MYIP and costs associated with the start of operations in sub-Saharan Africa and Iraq. The ratio remains below the 70 per cent SCF control parameter limit throughout. The SCF control parameter on the five-year average of the staff cost to total cost ratio is projected to decline to 66 per cent by the end of the SIP period (from an estimated 69 per cent in 2023) and also remains below the 70 per cent threshold. Other cost control metrics, such as cost to income and costs to operating assets, are stable and the profitability of the Bank is expected to remain strong over the remainder of the SCF period.

Nevertheless, the Bank continues to operate in a difficult environment. The effects of inflationary impacts on the cost of living from Covid-19-related pent-up demand, supply chain disruptions and Russia’s invasion of Ukraine have persisted longer than expected. In the United Kingdom, consumer price inflation, the key yardstick for the Bank’s budget, has been the highest among G7 countries, peaking at 11.1 per cent last October and recorded as 6.7 per cent in August 2023.

An inflationary background – with many price increases breaching an annual rate of 10 per cent – is a difficult one for setting budgets. Price rises for many items are unavoidable and other cost increases are hard to contain. Salary pressures intensify as the cost of living rises – a notable feature in the UK – and as employers respond to keep key staff in the face of general labour shortages. The EBRD is not immune from these pressures.

The proposed budget for SIP 2024-26 is mostly driven by these underlying cost pressures. At the same time, and commensurate with the high ambitions of the Bank as it supports Ukraine and delivers the SCF agenda, there are large resource needs. It is only by management’s continuing commitment to contain the growth of costs through efficiency measures and the reallocation of resources that it has been possible to present a modest request for resources in this SIP.

The SIP 2024-26 budget proposal is a core administrative expense budget of £479.3 million for 2024 and represents an increase of 6.9 per cent. This is close to both the UK (August 2023) inflation rate and Bank-wide inflation, and implies a small real terms increase of 0.2 per cent. This is against a backdrop of significantly more ambitious targets in 2024 for ABI and AMI (a 13 per cent increase taken together), on gender focused projects (up by five percentage points) and the green economy transition (a majority green Bank one year ahead of schedule).

The budget is made up of a 2.1 per cent (£9.5 million) increase in non-discretionary costs arising from inflation impacts, a below-inflation rise in compensation and benefits of 3.8 per cent (£17.2 million), and a small allocation of 1.0 per cent (£4.4 million) for net new resources which includes a significant component for Ukraine-related delivery.

The effective management of resources has played an important part in containing the net resource request. This has been helped by a continued cultural shift, encouraged by the Transformation Agenda, to embrace digitalisation and efficiency across the Bank. All departments have been vigilant in contributing to efficiencies and reducing asks. In particular, the Client Services Group (CSG), which accounts for about half of the EBRD's direct costs, has resourced all its staff needs, or 63 positions, through reallocations and by exploiting further efficiencies.

Overall resource needs of £12.3 million have been substantially funded by offsetting efficiencies and reallocations of £7.8 million. The effort to achieve higher efficiency has involved workload re-evaluation, reassessment of spans and layers, repurposing of vacancies, as well as decommissioning legacy IT systems, and includes £1.5 million of savings from MYIP. A total request for 106 headcount positions was reduced to a net of 23, cutting costs by £6.3 million, with budget reallocations reducing non-staff cost asks by £1.5 million.

Of the £4.4 million net new funding requested, £2.4 million, including 10 FTEs, is to facilitate continued response to the war on Ukraine, to support corporate recovery, sanctions compliance, donor engagement and security expenses; **£1.4 million is for green transition and digitalisation**, taking on five new FTEs; and **£0.6 million reinforces the Bank's delivery** capabilities, including eight FTEs.

The **total administrative expense budget for 2024 is £515.9 million**, and includes £36.6 million for MYIP operating expenses and depreciation. The requests made in SIP 2024-26 reflect a disciplined approach to budgeting under elevated inflation and one which imposes tight constraints on the resources needed to deliver vital support to Ukraine and meet SCF goals in a complex and challenging operating environment.

The Bank's operational plan is ambitious. Planning business under turbulent economic and political conditions is fraught with uncertainties. But one thing is clear. The EBRD remains steadfast in its support for Ukraine in its time of crisis. And, with the need to tackle climate change increasingly urgent by the day, the Bank will continue its vigorous pursuit of green transition as well as working hard to meet other SCF objectives.

In conclusion, **SIP 2024-26, and its budget, is designed to support ambitious business objectives in Ukraine and on climate finance while also maintaining a strong focus on quality and efficiency to reinforce the Bank's delivery**.

1. The external environment

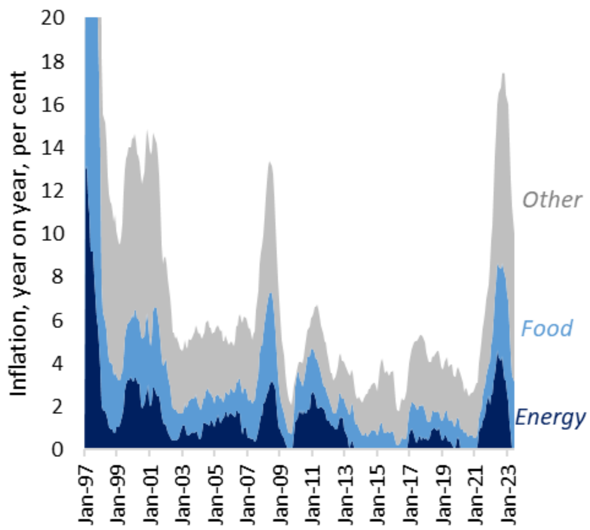
1.1 Anaemic growth amid high but declining inflation

Growth in the EBRD regions slowed from 3.3 per cent in 2022 to an estimated 1.7 per cent (year on year) in the first half of 2023 as high inflation weighed on the purchasing power of households and the global economic outlook remained subdued. In its October 2023 *World Economic Outlook,* the International Monetary Fund expected global growth to slow from 3.5 per cent in 2022 to 3 per cent in 2023 and 2.9 per cent in 2024 as rising interest rates in response to persistent inflation continue to hold back growth prospects. These rates of growth are well below the recent historical average (2000-19) of 3.8 per cent.

Average inflation in the EBRD regions fell from a peak of 17.5 per cent in October 2022 to 9.7 per cent by July 2023, as increases in the prices of energy, and to a lesser extent food, moderated. Disinflation has so far been broadly in line with expectations.

However, recent data releases point to the pace of disinflation slowing, as core inflation (which excludes food and energy prices) increasingly dominates price pressures. In June 2023, core inflation accounted for around 70 per cent of inflation (see Figure 1.1). Reflecting the moderation in energy prices, goods inflation has come down in emerging Europe, although service price inflation remains high. Imports played a stabilising role in the food market with prices increasing by less than those for domestically produced food staples.

Figure 1.1 Core inflation (excluding food and energy) accounts for the bulk of inflation



Source: Bloomberg, national authorities via CEIC and authors' calculations.
Note: Headline inflation is a simple average across 33 economies in the EBRD regions. The decomposition is based on an unbalanced panel ranging from 5 economies in 1997 to 11 economies from 2001. The decomposition is scaled to overall inflation in the EBRD regions.

1.2 The implications of the war on Ukraine

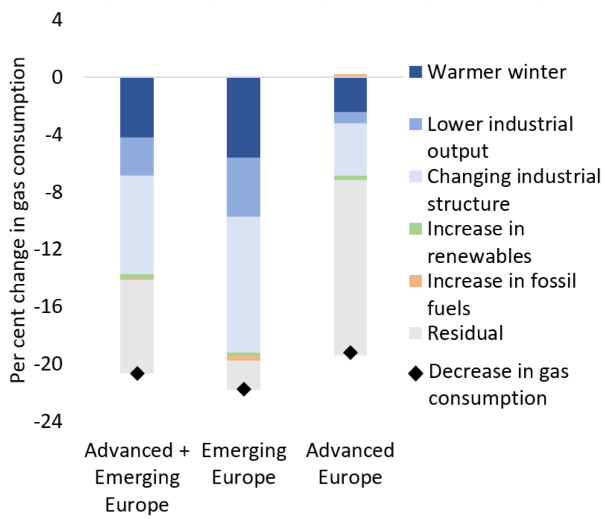
Oil and gas prices rose sharply in 2022. While they fell back to below their pre-war levels in the first half or 2023, recent uncertainty over potential supply concerns increased volatility and pushed prices to around their pre-war levels. Markets expect oil prices to decline somewhat but remain above 2017-21 average levels. A weaker-than-expected outlook for China and the effect of tighter global financing conditions have been offset by supply cuts implemented by members of OPEC+, which groups the Organization of the Petroleum Exporting Countries with selected other producers.

The price of gas in Europe increased sharply in late 2022 but has also eased since to levels seen in early 2021. Those levels are still over four times the US price of gas, down from a peak multiple of 11. Gas futures markets imply an increase in the gas price in Europe during the forthcoming heating season.

As supplies of pipeline gas from Russia to Europe fell by more than 70 per cent year on year in the second half of 2022 and the price of energy rose sharply, consumption of gas in Europe fell by more than 20 per cent during the winter of 2022-23 (compared with the previous winter).

The bulk of the adjustment came from changes in the structure of industrial production as economies shifted away from gas-intensive industries (see Figure 1.2). Output reductions in gas-intensive industries, such as non-metallic minerals (including, for instance, bricks, glass and other construction materials), chemicals, basic metals and paper explain about 33 per cent of the decline in gas consumption. At the same time, output expanded strongly in less gas-intensive industries, such as electrical equipment production, car manufacturing and pharmaceuticals.

Figure 1.2 Gas consumption in emerging Europe fell by 21 per cent in the 2022-23 winter, driven by changes in industrial structure



Source: Plekhanov and Sassoon (2023), Gas consumption in Europe during the winter of 2022-23, EBRD Working Paper, Forthcoming; Eurostat; IEA; national sources; and authors' calculations.

Note: Year on year change. March 2023 missing for some economies. Simple averages across 12 economies in emerging Europe and 11 economies in advanced Europe. Assumes annual energy efficiency improvements in industry of 1.8 per cent.

Notwithstanding shifts in industrial structure, total industrial output was lower than otherwise expected, contributing to slower economic growth in the last quarter of 2022 and the first quarter of 2023. Large shifts in the structure of industrial production in Europe have generally not been accompanied by reduced employment in industries with lower output, contributing to tight labour markets and high nominal wage growth amidst negative GDP growth.

Increased geopolitical risks pushed up borrowing costs in the EBRD regions, in addition to the effect of interest rate hikes in advanced economies. In the EBRD regions as a whole, the median yield on five-year government bonds increased by 3.9 percentage points between early February 2022 and mid-October 2023. Although most of this increase reflected a tightening of monetary policy in advanced economies (yields on German and US bonds increased by 3 percentage points, on average, over the same period), a further 0.9 percentage points was due to a widening of the spread between the EBRD regions and Germany/the United States of America because of a reassessment of economic and geopolitical risks faced by individual borrowers. Yields on sovereign bonds increased most in Egypt, Lebanon and Tunisia (as well as Belarus, Russia and Ukraine).

Growth in the EBRD regions is expected to slow to 2.4 per cent in 2023 from 3.3 per cent in 2022. Slow growth in advanced economies weighs on growth in much of central Europe and the Baltic states, south-eastern European Union countries and the Western Balkans. In contrast, growth in Central Asia and parts of the Caucasus remained strong in 2022 and in the first half of 2023 (measured in year on year terms), reflecting gains from intermediating trade to and from Russia and high levels of migration and remittances from Russia, which, in turn, underpinned robust real wage growth in these economies. In the SEMED region, rising fiscal vulnerabilities and weak reform momentum constrain growth prospects, even as global food price inflation has become more muted.

1.3 Risks and uncertainties ahead

Projections for the EBRD regions are subject to uncertainties created by the war on Ukraine which continues with no end in sight. World trade growth is predicted to decline from 5.1 per cent in 2022 to 0.9 per cent in 2023, reflecting weakening demand for exports. Further deepening of ruptures in global supply chains arising from geopolitical tensions is a major risk to the outlook, in particular for those countries in EBRD regions that are deeply integrated with international trade.

Slowing growth in China also constitutes a notable risk to the outlook, in particular for Central Asia and the Caucasus. In early 2023, manufacturing activity and consumption of services in China rebounded as strict Covid-19 lockdown policies were lifted. However,

Box 1.1 What will be needed to reconstruct Ukraine?

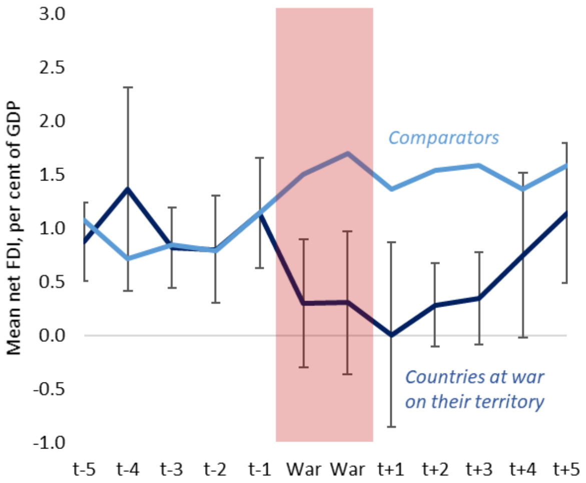
Historically, post-conflict reconstructions have presented daunting challenges due to widespread damage to capital stocks and human capital as well as from fragilities that arise in post-conflict situations. UN/World Bank assessments† estimated the damage to Ukraine's economy to be in excess of US$ 400 billion, which implies that reconstruction in Ukraine when it happens will be an immense task.

A swift recovery in Ukraine within a five-year period would require sustained rates of strong economic growth and high investment ratios of the order of 30-35 per cent, compared with an average of 16 per cent seen in Ukraine in 2016-21. Maintaining high levels of investment would also require a major increase in the economy's absorption capacity,

Domestic savings would be inadequate to finance this level of investment and foreign direct investment typically drops substantially for a long period in the aftermath of a conflict, reflecting high perceived risks and a difficult institutional environment (see Figure 1.3). As a result, the gap between the required investment and domestic savings would need to be covered by external financing (net inflows of capital) by as much as US$ 50 billion per annum.

Both public sector support and private sector investment have important roles to play. As well as contributing to energy-efficient industrial capital stock and agricultural machinery, the private sector can help rebuild housing as well as transport, energy and municipal infrastructure, provided individuals and firms have adequate access to finance. External assistance from bilateral and multilateral agencies can help alleviate funding shortages and implement structural reform conditionality. Rekindling growth in this fashion will be a vital first task in the future when reconstruction of Ukraine gets fully under way.

Figure 1.3 Foreign direct investment typically drops substantially in the aftermath of a conflict and takes a long time to recover



Source: Transition Report 2022-23 based on Correlates of War, IMF, Penn World Tables and authors' calculations.
Note: Includes only wars fought on a country's own territory that were not preceded by another war in the previous five years. Comparators are synthetic controls based on economies that were not at war in the five years before or after the war in question.

†Rapid Damage and Needs Assessment (RDNA2), Government of Ukraine, the World Bank Group, the European Commission and the United Nations, Press Release, 2023/ECA/82, World Bank, March.

continued weakness in China's real estate sector is holding back investment. With lower investment levels, growth may be structurally lower than in the past decade. The previous construction-led boom was in part underpinned by a rapid build-up in household debt, which has now reached levels comparable to those seen in the USA and advanced EU countries. Structurally slower growth in China may, in turn, result in weaker demand for EBRD regions' exports, directly and indirectly through global supply chains.

2. The Strategic Framework

2.1 Meeting the Bank's mandate

The mandate of the Bank is to support the transition of its countries of operations to a sustainable market economy. In delivering transition impact, the Agreement Establishing the Bank provides for two further principles: that the EBRD should pursue sound banking at the project and institutional levels, in keeping with the objective of financial sustainability, and be additional by providing finance on commercial terms not otherwise available from the market.

The EBRD's overarching transition goal is made operational through its investments, which are designed to improve the qualities that drive a sustainable market economy. The application of the transition concept and associated transition qualities to the Bank's activities supports its countries of operations in developing as economies which are competitive, well-governed, green, inclusive, resilient and integrated.

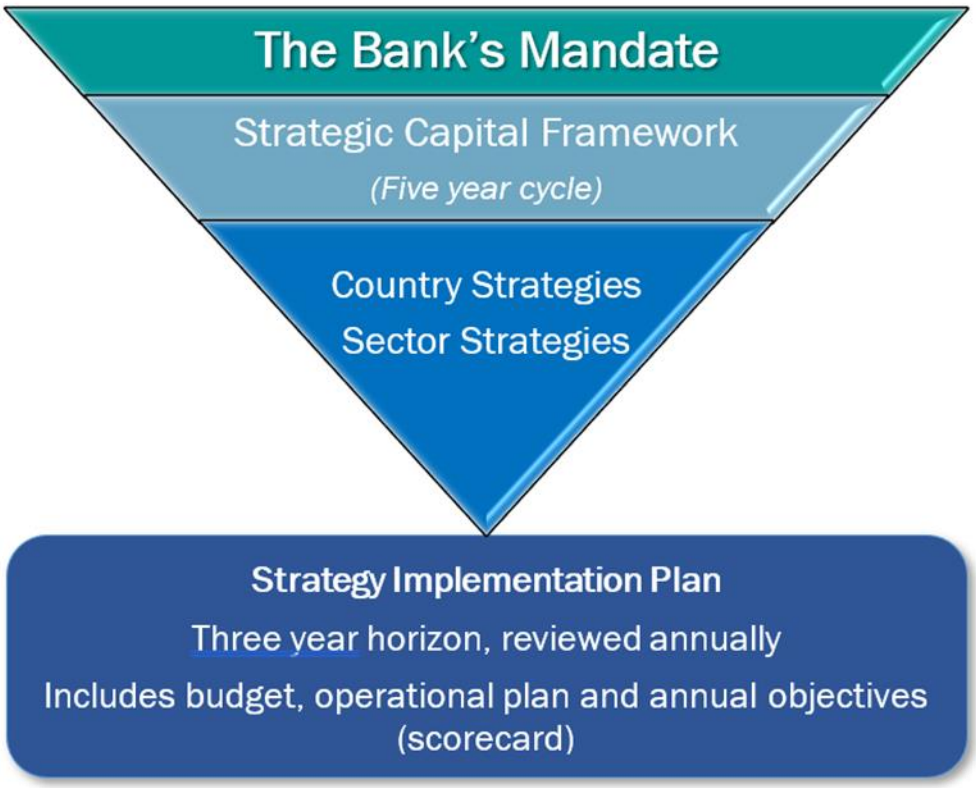
2.2 Strategic goals

The fulfilment of the Bank's transition mandate is supported by a comprehensive strategic planning structure and a complementary set of strategic documents.

The foundation of the Bank's strategic approach is the Strategic and Capital Framework (SCF), which is anchored in an analysis of capital resources and the Bank's value added. This is approved by the EBRD's Board of Governors and sets the Bank's strategic orientation for the subsequent five years.

Country and sector strategies operationalise the directions provided by the SCF, by translating them into specific sets of actions and priorities tailored to the individual country or sector context. Country Strategy Delivery Reviews assess progress against country strategy objectives annually in accordance with Article 11.2 of the Agreement Establishing the Bank and highlight challenges and opportunities for future delivery of transition. Country strategies are complemented by sector strategies and cross-cutting thematic approaches. These dovetail with country strategies by outlining the ways in which the Bank will achieve transition impact, reflecting sector developments and transition challenges across countries of operations.

Figure 2.1 Strategic Planning: Building Blocks



Lastly, the SIP sets out on an annual basis how the EBRD will implement these guiding tools in terms of specific business plans and the financial, resource and budgetary requirements to meet them. The SIP also defines Management's accountability to the Board for the year ahead, which is measured by a set of scorecard performance objectives.

The current SCF runs from 2021 to 2025 and reaffirms the enduring relevance of the EBRD's transition mandate and business model. Its overarching aim is for the EBRD to support its countries of operations in preserving and accelerating transition to build a more resilient and sustainable future in an uncertain and unpredictable context. It is the combination of medium-term strategic orientation from the SCF together with annual implementation that gives the Bank the flexibility to pursue its goals even as circumstances change.

The SCF contained a clear set of strategic operational, geographical, financial and institutional aspirations for the Bank in 2025 (for more details see Annex 1). Together these goals provide the yardstick against which the Bank's success over the SCF period will be judged. In summary, the Bank was expected to:

- **be responsive and flexible** in supporting all its countries of operation, with a particular emphasis on working with the private sector and increasing its activity in countries which are least advanced in transition, as well as enhancing the support available to any country that chooses to graduate
- **build on its strengths** by expanding and deepening its work in supporting progress to a green, low carbon economy; further mainstream gender into the Bank's work and increase its focus on combating inequality of opportunity
- **undertake new activity** through the development of the Bank's first programmes to support digital transition and mobilise private finance and – in the event of shareholders' agreement – engaging in new countries of operation either within the existing SEMED region or possibly beyond its current geographic scope
- **strengthen its institutional capacity** through enhancing the Bank's policy offer; invigorating its culture and conduct of monitoring, learning and evaluation; strengthening risk and compliance awareness; and putting in place the human and IT resources to deliver the strategy cost-effectively.

The initial context in which these aspirations were pursued was determined by the Covid-19 pandemic and its aftermath. The unexpected and devastating war on Ukraine has changed the context in which the SCF's aspirations are being pursued across all the Bank's countries of operations. However, although delivering on some specific goals has become more challenging, the overall thrust set out in the current SCF remains relevant and will continue to guide the direction of the Bank's activity.

The **SIP** translates the SCF's medium-term aspirations into near-term priorities, sequencing delivery of the SCF as appropriate based on country demand and institutional readiness. Approved by the Board of Directors, the SIP provides a three-year rolling perspective on the implementation of the SCF and the context for the EBRD's proposed annual budget and corporate scorecard.

The achievement of transition is only fully realised at the individual country level. Accordingly, country strategies are integral to the Bank's planning and delivery. Country strategy objectives are set for five years through a rigorous and structured process that includes systematic analysis of:

- the **needs** of the country to progress towards the achievement of the qualities of a market economy (via an assessment of transition qualities and subsequent in-country diagnostic work)
- the **opportunities** which may exist for making progress in fulfilling those needs, including the scope for investment and the availability of committed partners in both the private and public sectors
- the **capacity** of the Bank to take advantage of those opportunities, based on its areas of expertise, business model and complementarity to other development finance institutions.

2.3 Capital needs

Shareholders provide capital to enable the Bank to deliver their objectives. This capital has been augmented over time with significant levels of retained earnings which together provide the basis for the EBRD's activities. This capital is leveraged to allow the EBRD to lend substantial sums and invest equity in its clients in countries of operations. Prudent limits are set to ensure that the Bank is financially sustainable and the risk of unexpected calls on further shareholder resources is minimised.

From time to time circumstances dictate the need for a higher level of capital in order that the Bank can meet shareholders' objectives. The first capital increase, in 1996, was driven by the need to respond to a growing demand for EBRD finance as post-communist economies began to expand rapidly. In 2010, a general capital increase (GCI) consisting mainly of callable capital was agreed as part of the overall official response to the global financial crisis. This allowed the EBRD to engage in counter-cyclical lending and, later, provide support to economies in the SEMED region.

Russia's invasion of Ukraine in 2022 has brought widespread devastation in that country as well as significantly disrupting neighbouring economies. As the largest external investor in Ukraine, and having supported it since its independence in 1991, the EBRD plays an important and special role in the country. Donors have been generous in helping the Bank step up its activities in support of lives and livelihoods in Ukraine during a period of war. However, the continuation of the conflict and the enormous reconstruction task that lies ahead requires a more secure and permanent source of funding for the Bank's investment activity.

This has led the EBRD's shareholders to agree a GCI of €4 billion to enable the Bank to use its balance sheet to continue to support Ukraine in wartime and increase ABI in Ukraine significantly as security conditions improve in future, while still ensuring that the needs of other countries of operation are fully addressed.

2.4 Investment and policy

A key component of the Bank's delivery architecture is its capacity for policy engagement. It has long been recognised that it is the combination of policy engagement with investments that is at the centre of the Bank's capacity to achieve and sustain systemic transition impact, including through cross-cutting strategic themes. Institutional and regulatory reforms are critical components behind improvements in business environments and in creating new investment opportunities. The Bank's policy engagement with authorities in its countries of operations offers new ideas and dedicated expertise that supports their reform efforts and complements the practical inputs that come from EBRD investments.

The SCF set the overall aspiration for the Bank to strengthen its impact through further integrating policy engagement and investment activity and reinforced its ability to measure the effectiveness of its policy activity. Following an organisational restructuring to streamline and centralise the Bank's policy coordination and delivery functions, the planning and prioritisation of policy activity has been refined to further enhance the

Box 2.1 The EBRD's relevance in Ukraine

The EBRD has long supported Ukraine's transition towards a more sustainable market economy, one in which it is fully integrated within the regional and global trading system. Over the past decade, the Bank has not only made substantial investments, but it has also led sustained and practical support for reform. Overall, this reflects the Bank's approach to business in Ukraine which has a number of specific characteristics:

- A core focus on the private sector through investments and activities which strengthen the business climate.
- Investments in public sector entities to build markets and facilitate private sector participation. This includes provision of services through commercialisation and private sector involvement, for example, via public-private partnerships (PPPs), promoting efficiency and better governance in state-owned enterprises (SoEs) and capacity building.
- Lending to municipalities and municipally owned companies, to promote commercialisation, good governance and financial sustainability at the local level.
- Catalysing domestic and foreign investment through a commercial approach based on market pricing and strict adherence to the principle of additionality, complementing and crowding in private finance.
- Practical policy engagement with national and local authorities to create a supportive environment for private sector development and improvements in human capital.
- The ability to draw on extensive in-depth local market knowledge derived from local and locally employed staff in Kyiv and three regional offices.

effectiveness of delivery, thematic and strategic priorities, and to reinforce the complementarity of investments and policy engagements. Improving the measurement of impact from policy work continues to be taken forward in the context of strengthening the Bank's overall impact measurement processes.

2.5 Country and sector strategies, and transition qualities

The EBRD sets priorities at the country level based on comprehensive diagnostics of private sector development challenges. Country strategies assess the economic and political situation, describe the key challenges facing the country and identify investment and policy priorities for the five-year strategy period ahead, as well as areas of cooperation and co-financing with other international financial institutions (IFIs) and donors. Sector strategies complement country strategies by detailing overall sectoral and operational approaches in areas such as energy, transportation and financial institutions, noting key regional differences where relevant.

Recent country strategies highlight core themes of the SCF – green transition, inclusion and equality of opportunity, and digital advancement – and continue to emphasise Bank support for recovery efforts from the effects of the Covid-19 pandemic and the impact of the war on Ukraine, including activities to address key global economic vulnerabilities such as energy and food price inflation and trade disruptions.

Box 2.2 Advancing transition qualities

Competitive

In many countries of operations support for private sector expansion and deepening of market interactions in the corporate sector continue to be at the core of the Bank's activities.
SME development and expansion is supported by direct financing, credit lines with financial institutions, risk sharing, advisory and policy engagements.
Commercialisation and restructuring of state-owned enterprises, including support for greater private sector participation in state-dominated sectors, remains a focus in countries less advanced in transition.
Support for the introduction of new financial products, digitalisation and innovation, as well as deepening of capital markets are emphasised in country strategies for larger and more advanced transition countries.
Improved managerial skills and better business standards continue to be promoted in the countries with larger transition gaps.

Well governed

Enterprise level governance improvements, as well as institutional reform aimed at better governance and procurement practices, including support for the introduction of e-government and e-procurement, are an important priority in strategies for less advanced transition countries in south-eastern Europe, Central Asia, and eastern Europe.
The well-governed transition quality continues to be supported by policy engagement activities under comprehensive instruments and programmes such as the Investment Climate and Governance Initiative, the Green Cities programme and Legal Transition.

Green

Activities related to green transition and climate change are included in all new country strategies, reflecting the Bank's commitments and expertise in this important area. The EBRD supports efforts by countries in its regions to meet their commitments and targets under nationally determined contributions, economy-wide net-zero pledges and national adaptation plans.
Energy reform targeting both climate-change-related activities and energy resilience and security concerns, the latter emphasised by the war on Ukraine, continue to feature prominently in most country strategies. There is a focus on renewables, energy networks and resource efficiency, including energy efficiency.
Green Cities programmes, comprehensively addressing both investment and policy needs, continue to be anchors for country strategies in relation to municipal-level green transition.
Strategies for countries more advanced in transition reform focus on innovation in green transition, including the introduction of new green financial products, such as green bonds, as well as emphasising robust green commitments, accounting and monitoring.

Inclusive

The Bank's strategies in SEMED, Türkiye, south-eastern Europe, the Caucasus and Central Asia maintain strong inclusion and equality of opportunity objectives and activities, recognising the large transition gaps in this area.
Innovation in financial products, advisory activities and technical assistance targeting inclusion have been reflected in a wider range of activities in more recent country strategies, including innovative ways to increase access to finance and strengthen skills.
Special attention continues to be paid to supporting refugees, internally displaced persons and livelihoods in the context of the war on Ukraine.

Resilient

Energy sector resilience and security concerns have been an increased focus of activities in the countries most affected by the war on Ukraine, in addition to longer-term energy resilience challenges connected with the move from fossil fuels to renewables.
market frictions, have resulted in a greater emphasis on resilience in country strategies, including through increased demand for trade finance, working capital and other shorter-term financial resources.

Integrated

Country strategies in Central Asia, eastern Europe and the Caucasus include a significant focus on upgrading and expanding transport, energy and communication networks, both within and between the countries, also reflecting a redirection of trade flows as a result of the war on Ukraine.
Policy efforts to improve institutional capacity for preparing and implementing large infrastructure and energy projects, including the Infrastructure Preparation Facility, remain an integral part of country strategies targeting those investments, including via cooperation with the other IFIs and donors.

2.6 Balancing risks, impact and profitability

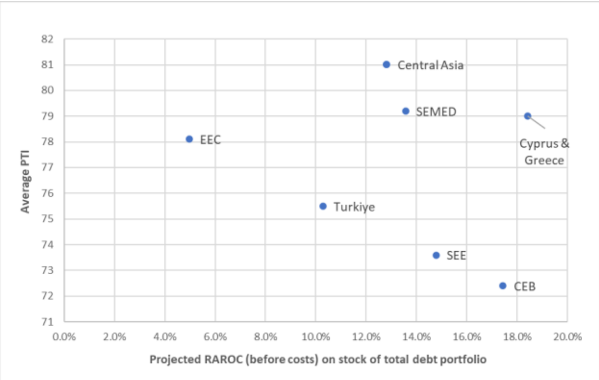
The EBRD is a development institution with a private sector focus. It is quintessentially an impact investor, taking on risks with its partners and making profitable investments which carry transition impact and are additional. Sound banking in its projects underpins medium-term financial sustainability, ensuring that the Bank's administrative costs are covered and that it can gradually expand its operations based on its income-generating capacity.

This section illustrates how the dual objectives of impact and financial sustainability are balanced in the Bank's portfolio. The geographical pattern of the Bank's activity in some important strategic dimensions is also presented.

A balanced portfolio

The SIP looks forward to propose the Bank's annual objectives for a specific year in the context of a medium-term projection of the Bank's activity. This planning is informed by the state and performance of the Bank's current stock of activity – both investment and policy work – contained in its portfolio. This stock of activity determines the Bank's achievement of transition impact and its financial sustainability. The SCF also provides a number of thematic objectives for the Bank to pursue in its delivery of transition impact. Reconciling this multiplicity of goals requires the Bank to maintain a balanced portfolio.

Figure 2.2 Transition impact and financial performance: full portfolio, 2022



Note: CEB = central Europe and the Baltic states; EEC = eastern Europe and the Caucasus; SEE = southern and eastern Europe.

The Bank's financial strength supports and enhances its continued ability to achieve its transition mandate. The charts in this section show two views of the distribution of transition impact and financial performance by region. Figure 2.2 presents the relationship between transition impact and financial returns for the current debt portfolio, as measured by portfolio transition impact (PTI)[1] and projected portfolio risk-adjusted return on capital (RAROC) before costs.

The distribution shown in the chart is more dispersed than in recent years. The picture illustrates the balancing of the Bank's objectives at the portfolio level. On the one hand, lower RAROC is accompanied by a higher level of PTI in the EEC region, reflecting the recent war on Ukraine. On the other, RAROC has been strong in CEB – helped by exceptional financial returns on investments supporting bond issuance as private sector risk aversion has risen – and in Cyprus and Greece where there is a large share of low risk transactions in the financial sector.

Figure 2.3 Transition impact and financial performance: new projects, 2022

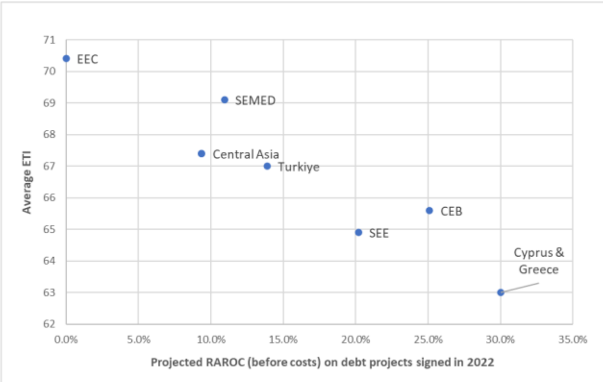


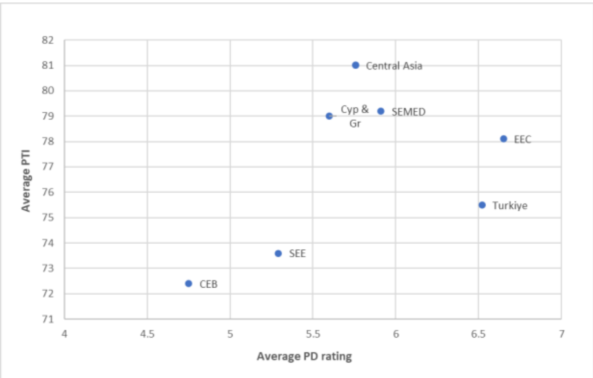
Figure 2.3 shows the financial and transition characteristics of new debt projects signed in 2022 by region. The picture is consistent with that presented at the portfolio level where, unusually, it is clear that movements in RAROC have been driven by a single year's activity. As implied by the portfolio picture, risk adjusted returns are particularly low in EEC and especially high in Greece and Cyprus and CEB.

As a complement to this analysis, Figure 2.4 shows the distribution of probability of default

[1] PTI measures the performance of projects against transition ambitions set at the beginning of the project.

(PD) risk ratings and PTI by region within the portfolio to assess the relationship between risk and impact, as opposed to financial return. It shows some evidence that where the Bank takes on more risks, transition impact tends to be higher. Nevertheless, analysis at the individual project level illustrates that better financial risk ratings and commercially strong client firms are typically associated with a higher likelihood of transition success. This reflects the strong connection between good commercial outcomes and client alignment with positive changes supported under transition objectives.

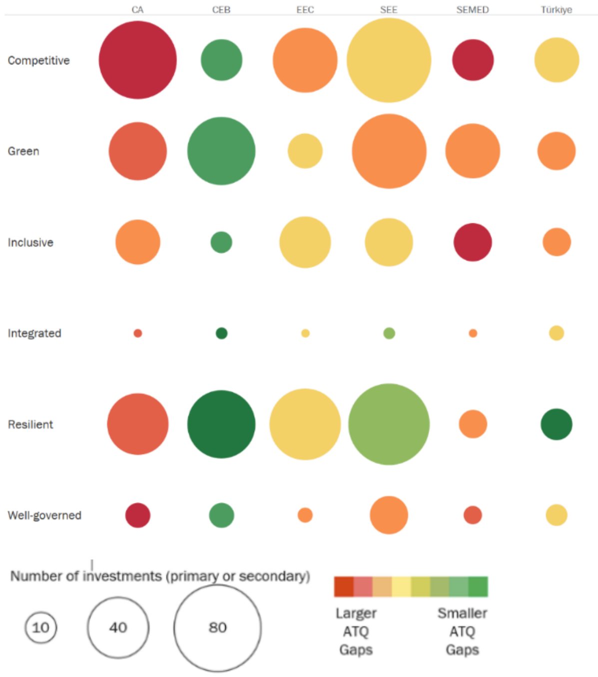
Figure 2.4 Transition impact and client probability of default by region, 2023



Delivering on multiple objectives and where it matters most

From a different perspective, Figure 2.5 shows the Bank's projects across impact qualities and regions. The size of the bubble reflects the number of projects signed in 2022 and its colour the size of the transition gap, with red denoting larger gaps.[2] The chart illustrates how the transition qualities associated with these signings are spread across regions, with the Bank active in addressing all six qualities (though less so on "Integrated" and "Well governed". The focus on areas and countries with larger gaps and challenges can be seen in Central Asia and SEMED, notably on the "Competitive" and to a lesser extent on the "Green" and "Inclusive" qualities.

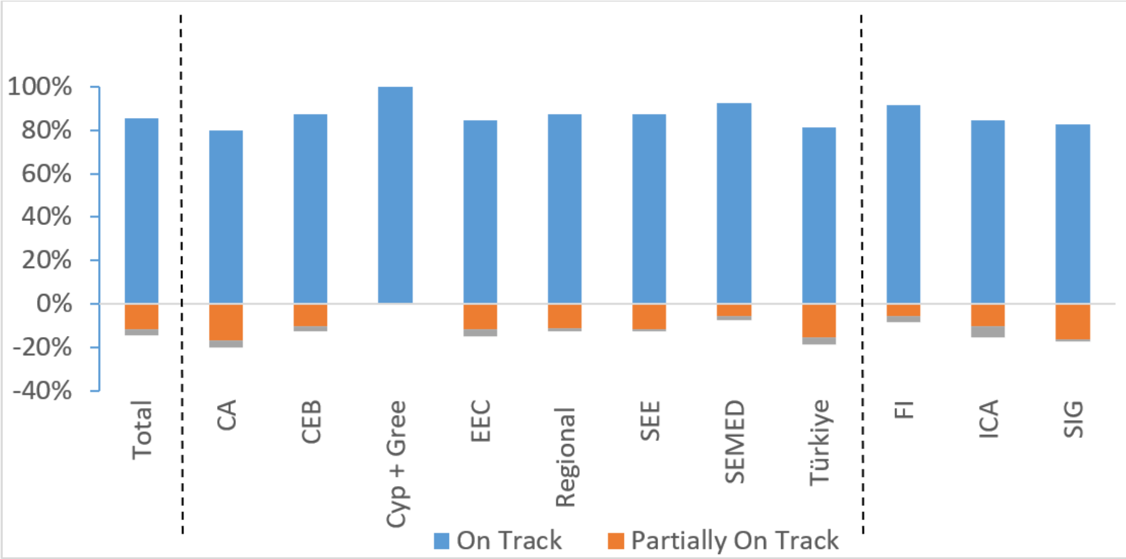
Figure 2.5 Annual investment by transition quality (primary or secondary) and region, 2022



The figure illustrates the EBRD's response to emerging challenges – over half the new projects in 2022 targeted the "Resilient" quality, reflecting the Bank's commitment to strengthening resilience in Ukraine and other countries affected by war, such as resilience support for displaced and host communities in central Europe and the Baltic states, for example. The year 2022 also saw an increase in Green and Inclusive projects as transition objectives became reoriented in this direction though there were fewer supporting integration.

[2] The assessment of transition qualities (ATQs) provides a score for each quality on a scale of 1 to 10, where 1 corresponds to the lowest performance and 10 corresponds to the standards of a sustainable market economy. ATQ scores, or transition gaps, are based on a wide range of external and internal data sources and are calculated in accordance with a detailed methodology set out in the EBRD's *Transition Report*.

Figure 2.6 Transition Impact Performance of active projects, 2022



In addition to the foundational goals of achieving high levels of transition impact and maintaining the Bank's strong financial position, the SIP and the proposed plan for 2024 have specific objectives for the shares of Green and private sector investment in ABI. These reflect commitments made in the SCF itself.

Table 2.1 presents the shares of each in ABI by region in the past two years. It shows that in 2022 the GET share remained high and above the scorecard target for that year, with half of the Bank's annual investment attributed to climate finance as the Bank maintained its focus on green economy financing, including the Paris alignment initiative and in response to the ongoing energy crisis. The Bank's private sector share in 2022 remained close to, though slightly below, the goal of 75 per cent in ABI set in the SCF. Both green and private shares were adversely affected by significant support for public sector activities in Ukraine, including on large energy infrastructure projects, as can be seen in the sharp drop in the shares in eastern Europe and the Caucasus in the table.

Successful delivery of transition objectives is a key positive indicator of the results of the Bank's planning. Figure 2.6 shows that 86 per cent of projects in the Bank's mature portfolio[3] are on track to fully achieve their transition objectives. Geographically, projects are performing strongly in SEMED and central Europe and the Baltic states (and in Greece and Cyprus where project numbers are small).

Performance is good across all sectors, most notably among financial intermediaries. Although one-fifth of infrastructure projects are only

Table 2.1 GET and Private Sector Shares, per cent

	GET Share in ABI		Private Share in ABI	
	2021	2022	2021	2022
Central Asia	36%	66%	66%	58%
Central Europe and Baltics	78%	70%	98%	95%
Cyprus and Greece	52%	55%	91%	100%
Eastern Europe and Caucasus	50%	22%	64%	43%
South-Eastern Europe	48%	51%	66%	75%
Southern and Eastern Mediterranean	42%	42%	72%	70%
Türkiye	55%	51%	85%	95%
EBRD	51%	50%	76%	74%

[3] All active projects that are at least two years post-signing. FI is financial institutions, ICA is industry, commerce and agribusiness, and SIG is the sustainable infrastructure group.

partially on track, their longer average tenor means that these projects still have time to deliver fuller results. The vast majority of over 200 projects completed in 2022 partially or fully met their transition objectives. Just three projects, all in the ICA sector, failed to meet their ambitions due to longstanding market expansion challenges.

Overall, the achievement of the Bank's goals and portfolio balance is a result of multiple factors and concerted planning. The EBRD works hard to maximise its transition and financial performance, and balance its objectives, subject to the geographic, thematic and sectoral aspirations contained in the SCF and lessons learned from past performance. It is the balance between these forces which is reflected in this plan.

3. Responding to client needs: the operational plan

Introduction

Global headlines in 2023 have been dominated by the urgent need to combat climate change and the effects of the continuing war on Ukraine. It is precisely these issues that have been central to the EBRD's operational activities this year. In extending its commitment to Ukraine, where it is already the largest foreign investor, the Bank has lived up to its reputation of standing by its clients when crisis strikes. In parallel, passing the milestone of becoming a majority green bank, the EBRD has been highly instrumental in transforming the carbon footprint of its countries of operations.

In the 18 months since Russia launched its unprovoked attack on Ukraine the Bank has deployed over €3 billion in finance and guarantees to make Ukraine's private sector more resilient, strengthen its food and energy security, restore vital infrastructure and improve livelihoods.

Investment activity in Ukraine is running at levels over 50 per cent higher than in the years prior to the Russian invasion.[4] But this has not been at the expense of other countries' needs. Quite the contrary. Beyond Ukraine, record business investment levels were reached by a large margin in 2022 despite difficult trading conditions and tightening financial conditions. Less advanced transition economies too saw a substantial rise in EBRD investment volumes.

The Bank has further strengthened its green credentials by providing a large range of solutions to tackle the climate emergency with record GET investments of €6.4 billion in 2022. It is showing continuing promise in 2023, including on green mobilised finance. More than half of the EBRD's business volume is green certified and all investments are Paris aligned. The Bank remains at the forefront of MDB action on climate change.

The EBRD is responding to global needs and those of its regions. The war on Ukraine has strengthened its additionality. It is on course to deliver historically high investment volumes once again in 2023 and continues to combine its investing capacity with policy engagements and reform. While the SCF 2021-25 did not anticipate Russia's unprovoked attack on its neighbour, nor the disruption to the region and energy markets that followed, its goals remain as valid now as three years ago: providing support to Bank clients leading to greener economies, greater and more equal opportunity for all, harnessing the benefits of digitalisation and mobilising additional finance for private sector development. The operational plan for 2024 and the years ahead takes this delivery agenda forward in new and important ways, as this chapter shows in more detail, while continuing to provide maximum help to Ukraine.

3.1 Helping Ukraine and clients affected by the war

Russia launched its unprovoked war on Ukraine on 24 February 2022. The Bank reacted swiftly to the unwarranted aggression by creating a framework to support Ukraine and neighbouring countries directly affected by the conflict. The Resilience Package, approved by the Board on 8 March 2022, introduced a provision for a €2 billion Resilience and Livelihoods Framework (RLF), an amount subsequently increased to €3 billion in July 2023. In addition, thanks to donor support, the Bank pledged to invest €3 billion over the period 2022 to 2023, focusing its investment activities on five key areas: trade finance, energy security, food security, municipal and vital infrastructure and private sector companies.

By the end of 2022, the Bank had deployed finance amounting to €1.7 billion in Ukraine, with donor-funded guarantees and technical support playing a critical role. Financing was provided to the most vital elements of the country's infrastructure in the form of liquidity to Naftogaz for emergency gas purchases during the winter and to state energy and rail companies Ukrenergo and Ukrzaliznytsya (Ukrainian Railways) to keep electricity and rail services running. There were significant contributions to the Ukrainian economy through the Bank's Trade Facilitation Programme (TFP) worth almost €0.5 billion and a large number of projects designed to improve food security, maintain people's

[4] Annual Bank Investment in Ukraine was 65 per cent higher in 2022 than its average over 2018-21.

livelihoods and increase private sector resilience. The Bank's impact in the country was further strengthened by the mobilisation of €0.2 billion finance through risk sharing facilities with partner financial institutions, helping to sustain SMEs' business activities and employment.

In 2023 the Bank stepped up its effort to support the real economy in line with its core focus on the private sector. Annual finance deployed to Ukraine by the end of September totalled a further €1.2 billion, including over €0.3 billion to facilitate trade and €0.4 billion to support vital infrastructure and the remainder dedicated to energy and food security and other private sector support. Under the RLF, the EBRD provided clients and partners with help and technical assistance to protect livelihoods and jobs. Each RLF project was designed to strengthen human capital resilience through skills initiatives and the (re)integration into the workforce of refugees, veterans and those internally displaced. Finance provided also included close to €0.2 billion in donor-funded investment grants with a large contribution from Norway to support Naftogaz. By the end of September 2023, the Bank had deployed financing of over €3 billion since the onset of the war.

In addition to financing, the Bank has provided important policy support to the Ukrainian government and local stakeholders since the start of the war. It launched a dedicated programme, integrated with EBRD sovereign transactions, to provide rapid technical assistance to Ukrainian state-owned enterprises facing wartime and recovery challenges ('SMART for Ukraine'). The programme encourages procurement reform and anti-corruption activities and sits alongside the Bank's continuing support to the Business Ombudsman Institution, which plays an important role in protecting Ukrainian SMEs from unfair treatment by government and related entities.

The Bank has engaged proactively, including with international partners, to promote resilience and good governance, preserve livelihoods and human capital and strengthen financial capacity and the flow of domestic finance.

Looking forward, the scope of the Bank's contribution is dependent on a range of factors. Principally, the prevailing security situation and opportunities to repair damage caused by war; the willingness and ability for reforms to be undertaken; the scale of the depletion and displacement of the country's workforce and human capital; and the direction and scale of the support for Ukraine by other partners.

In the context of the war continuing, Bank activity will remain focused on addressing the most urgent needs in a high-risk environment. The Bank has been able to support important transition objectives in wartime, especially on economic resilience and anti-corruption and corporate governance reform in state-owned enterprises. However, under a protracted conflict its ability to pursue a broad range of goals will be constrained. An improvement in the security situation, and an eventual peace, would allow a significant widening of activities towards reconstruction and economic regeneration within a concerted and well-coordinated international approach.

Clients beyond Ukraine affected by the war

In addition to its dramatic impact on Ukraine, the conflict created significant challenges for neighbouring countries. These range from the impact of the forced displacement of people from Ukraine (most of them women and children) to the economic consequences of the conflict: inflation fuelled by an energy and food security crisis, consequential increases in interest rates and reduced access to capital, the suspension of key trading routes and disruption to international supply chains.

As a result, investor sentiment towards countries affected by the conflict soured and there was a significant increase in demand for EBRD assistance. In response, the Bank has been pursuing investments in these countries, including via the RLF, focused on energy security, the sustainable provision of national infrastructure and municipal services (including in areas hosting refugees), capital markets and strengthening financial intermediaries. The Bank also financed projects which facilitated refugee integration in sectors such as manufacturing, agribusiness and tourism and at the city, region or country level.

Box 3.1 Bank activities are improving Ukraine's resilience

At a time of great disruption and uncertainty, companies and financial institutions need critical support to carry them through the difficulties and build up their abilities to cope with future shocks. The EBRD's capacity to invest, provide technical assistance and policy advice, as well as its unique mandate and long experience, is proving important in making Ukraine's economy more resilient in the face of war.

During the summer of 2023, the Bank engaged with local partner financial institutions in nine transactions amounting to €76 million, including guarantee facilities and credit lines, to expand their lending activities and outreach to private enterprises, including many SMEs. Unfunded portfolio risk-sharing instruments totalling €66 million were issued to support €265 million of new lending to companies in Ukraine, thereby helping to sustain their business activities and keep thousands of Ukrainians in work.

The war has had a debilitating effect on the running of many businesses. The Bank is investing in a number of transportation and logistics services companies to help counter supply chain disruptions and strengthen export capacity:

- A US$ 10 million EBRD loan and US$ 3 million sustainability-linked loan from the Clean Technology Fund is financing IMC's grain transportation (trucks and trailers) investments to reduce logistics risks, safeguard the company's exports and improve the efficiency and reliability of inland transportation, helping to preserve 1,700 jobs.
- A €9.6 million loan and US grant of €1.5 million to Agrosen Group, a private distributor of agricultural inputs and provider of logistical services, is supporting the development of a grain transhipment complex located near the border with Poland which will improve Ukraine's transport connectivity with the EU.
- A US$ 24.5 million equity investment (a joint venture with Dragon Capital) in a logistics and business hub near Lviv will increase access to vital services and products by alleviating the lack of warehouse space and supply chain bottlenecks caused by the war which have affected the affordability and supply of food, hitting vulnerable residents especially hard.

Since the start of the war the Bank has provided more than €0.5 billion of financial support (including a generous grant from the Netherlands) to Ukrenergo, the state-owned electricity transmission system operator. This has been for immediate liquidity needs and the procurement of equipment for emergency grid repairs to ensure stable and uninterrupted electricity transmission services after major damage caused by Russian missile attacks which have destroyed almost half the infrastructure of the national grid.

A Human Capital Resilience Response for Ukraine programme was launched in 2023 to address EBRD clients' most pressing workforce and skills-related needs under wartime conditions. The Bank engaged with policy authorities and others to help restore labour markets and improve institutions, regulations and programmes in line with employers' needs across a range of sectors. The programme helps clients to:

- *fill urgent workforce gaps*, particularly among internally displaced workers and returnees, demobilised staff members and those with reduced work capacity; the programme is currently supporting MHP Group and Naftogaz to establish dedicated veterans' reintegration programmes and trauma-informed assistance to returning demobilised workers and their families
- *establish critical skills* to sustain operations in challenging times, fostering a more competent and diverse talent pool through the launch of new training programmes and qualification standards, for example, at Naftogaz
- *upgrade operational processes and working practices* through the adoption of digital technologies, labour productivity enhancements and job quality improvements.

With the onset of war, the Ukraine Reforms Architecture (URA) programme, managed by the EBRD in partnership with the EU, pivoted to help the government of Ukraine address emergency administrative needs (such as coordination of humanitarian support, relocation of businesses from conflict areas, damage assessment), plan for recovery and reconstruction (via coordination of international assistance) and EU integration. From September 2023, the programme entered a new phase designed to help the government improve the regulatory environment and ensure the effective and transparent use of financing for recovery and reconstruction.

This direct support generated an unprecedented increase in EBRD investment across the 12 affected countries of central Europe and the Baltic states (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia), south-eastern Europe (Bulgaria and Romania) and eastern Europe and the Caucasus (Moldova). Demand for EBRD finance has remained strong throughout 2023 and this is expected to continue in the near term. Over time, as financial flows return to more typical levels and recovery proceeds, transition business opportunities and Bank activity in some of these countries may moderate. Going forward, the Bank expects to focus on energy security (including investments in renewables, transmission and distribution systems), infrastructure development (such as improved logistics and transport links, for example between Ukraine and Moldova) and access to finance and capital markets.

3.2 Progressing the SCF

3.2.1 Green economy

The EBRD is entering the last phase of its GET Approach 2021-25, which has focused on the Bank's operationalisation of Paris alignment, becoming a majority green bank by 2025, expanding climate policy engagements, scaling up finance via thematic areas and systems, and strengthening partnerships. Despite the challenging regional business environment due to Russia's war on Ukraine, the Bank's green finance reached 50 per cent of total business volume in both 2021 and 2022, with green finance in 2022 exceeding €6 billion following a record volume of €5.4 billion in 2021.

The United Nations' Framework Convention on Climate Change's first technical report of the global stocktake, released in September 2023, concludes that the world is still far from limiting the rise in global temperature to 1.5 degrees Celsius and meeting the target of net zero emissions by mid-century. Meanwhile, highly visible and devastating impacts of global warming are increasing at an alarming rate across the world, with natural disasters and consequential uncertainties multiplying the stresses on already fragile economies. The longer countries wait to act, the more complex and challenging it will be to achieve an orderly and just transition for all nations.

In response to calls by COP27, G7, G20 and other high-level global and regional forums for MDBs to scale up climate finance, the EBRD will build on its already solid track record of private finance support and mobilisation. In-house estimates for the EBRD regions indicate an average of at least US$ 200 billion of additional annual climate investment will be needed by 2030, and around US$ 25 billion annually for nature-based investments. This implies a need for significantly greater catalytic use of public finance, including through strengthened country-level policy engagement, and a greater focus on private sector mobilisation, with the Bank continuing to leverage its activities to foster green mobilisation. That engagement will focus on reducing the constraints which inhibit green investments and developing the regulatory frameworks that incentivise them.

In this context, the key priorities for 2024-26 are as follows:

- **Developing and operationalising country sector platforms**, comprising country-focused packages of policy, investment and capacity-building activities to implement sectoral or thematic components of low carbon and climate resilient economic transition. These include priority actions set out in long-term strategies (LTS), nationally determined contributions (NDCs), and other sectoral and subnational low carbon and climate resilient pathways and plans which aim to scale up total climate investment, including private and public finance from a range of different sources, and not just additional MDB finance. The approach can bring significant efficiencies and synergies in terms of market creation, policy integration and harmonisation, country-level planning and financial mobilisation. For example, with the EBRD's support, Egypt launched an energy pillar of its Nexus of Water-Food-Energy (NWFE) country platform at COP27. Based on Egypt's commitment to phase out 5GW of fossil fuel assets, NWFE mobilises private investment for 10GW of renewable energy, alongside just transition support and grid investments through IFI and donor funding. Other areas for integrated platform development include industrial decarbonisation, green capital markets, green cities and renewable energy market expansions.

- **Developing instruments to finance adaptation and nature.** The EBRD launched its Adaptation Plan at COP27 and is now actively implementing it. This will build on the Bank's Paris alignment commitment, which ensures every project is assessed against the adaptation goals of the Paris Agreement. It will also focus on developing strategic partnerships, such as with the Global Center on Adaptation (GCA), and implementation of a new adaptation financing tracking methodology. Building on its long experience of financing pollution clean-up and restoration, the Bank will develop in concert with other MDBs a strengthened approach to nature finance. The Bank expects key elements in both cases will be mobilising donor finance and developing and implementing results-based financial products and approaches, such as sustainability linked-loans (SLLs) and bonds (SLBs).
- **Creating green and sustainability-linked capital markets.** As part of its continuing efforts to green the capital markets, the EBRD will increase its engagement with clients to build capacity and increase readiness to issue green or sustainability-linked capital market instruments. The Bank will support countries in developing market standards on sustainable and green finance and opportunities for green and SLB issuances.
- **Greening the financial system.** In line with its GET work with financial intermediaries and Paris alignment approach, the EBRD will step up its engagement in transition planning with its partner financial institutions (PFIs). The Bank will equip PFIs with the skills and capacity to identify climate risks and opportunities and help them with transition plans to align with the Paris Agreement. To complement this the EBRD will expand its technical advisory work to central banks and financial regulators to improve the regulatory environment for climate risk management, market development and reporting.
- **Expanding renewable energy markets.** Building on its strong track record in supporting renewable energy policy, the Bank will focus on renewable energy market creation in its countries of operations to include additional renewable energy auctions in markets where the Bank is already active and pilot new auctions in others. Existing programmes will continue to expand and connect with the broader energy transition agenda through country sector platforms.
- **Enhancing the Green Cities programme and sustainable municipal lending.** The Bank will develop and implement an enhanced Green Cities investment framework which will not only focus on new member cities but will also update existing Green City Action Plans (GCAPs) by integrating issues such as climate governance, net zero goals, nature, climate adaptation and resilience, green mobility and green buildings. The knowledge-sharing component of the Green Cities programme will be strengthened, particularly through the Green Cities officers' network. Moreover, the Bank will increase support for cities' access to green capital markets, for example by helping them issue green bonds on the back of their green investment portfolios.
- **Increasing support for carbon markets.** The Bank will continue to closely monitor trends in compliance and voluntary carbon markets, exploring how to harness existing and emerging opportunities to foster project pipeline development.

3.2.2 Equality of opportunity

The EBRD's distinct but interlinked strategies for the promotion of gender equality and equality of opportunity[5] continued in 2023 to focus on enhancing gender equality across the EBRD region, and on protecting human capital resilience in the face of large-scale shocks and crises, such as climate change, conflict (notably the war on Ukraine) and natural disasters.

Progress towards the Bank's target of integrating gender into at least 30 per cent of the Bank's operations in 2023 (and 40 per cent by 2025) remains strong. By mid-year, 42 per cent of signed projects had received a gender SMART tag, well ahead of 2022 and distributed broadly across the EBRD's main sector groupings (with sustainable infrastructure in the lead). The share of inclusive projects also rose towards the 2025

[5] Strategy for the Promotion of Gender Equality 2021-25 and Equality of Opportunity Strategy 2021-25 respectively.

target of 25 per cent and stood at 22 per cent at mid-year.

This progress is especially important in an environment where the closing of gender gaps has seen reversals across many parts of the EBRD region (and globally), inequalities continue to increase and where major shocks are creating further challenges for millions of people.

The Bank's activities to promote equality of opportunity during the rest of the SCF period, including through a higher target for gender-tagged operations at 35 per cent of operations in 2024, will be pursued with vigour and determination across the following key priority areas:

- **Full integration of human capital resilience support across the Bank's Ukraine response** – both while war persists and as part of longer-term recovery. This will build on workforce crisis management support provided to SOEs (Ukrenergo, Naftogas) and corporates (especially in the agribusiness sector), the integration of war veterans and displaced persons into the workforce, psychological support to employees and their families, and help for clients to protect jobs, livelihoods and access to vital services. At a policy level, the Bank will continue to work with the Ministry of Education and Science of Ukraine, in partnership with the EU for Skills Programme, to plan vocational training, employment services and labour market activation. Furthermore, the Bank encourages policies to tackle gender-based violence and harassment (GBVH) in all its forms and will continue to raise the importance of a human-capital-centred, gender-responsive recovery at conferences and with key partners.
- **Scaling up just transition and gender smart climate investments and policy engagement.** New just transition plans are being developed in the Western Balkans and the SEMED region while gender-responsive measures are embedded into Green Economy Financing Facilities (GEFFs), the SME Go Green framework and Green Financing Facility. A focus on protecting human capital resilience and gender equality is also integrated into the Climate Adaptation Plan and the Bank will leverage its strong presence at COP and other relevant global forums to promote a gender equal and just green economy transition.
- **Further expansion of green and digital skills programmes and Sector Skills Councils for a more inclusive future of work.** The Bank will help clients to invest in high quality training for digital and green skills, and to shape related National Occupational Standards (NOSS) via Sector Skills Councils. Clients such as ACWA Power in Uzbekistan, STEG in Tunisia or Energjisa in Türkiye have introduced ambitious programmes in this context, which can act as a blueprint for expanding such initiatives.
- **Flexible and fast deployment of support to communities, people and businesses hit by disasters, such as the devastating earthquakes in Türkiye and Morocco.** Building on its rapid response to the Türkiye earthquake, especially the Türkiye Disaster Response Framework (DRF), the Bank will strengthen its readiness to respond to urgent crises to protect livelihoods and jobs across affected communities.
- **Promotion of Inclusive Financial Systems through the Women in Business (WiB), Youth in Business (YiB) and other financing programmes, combined with new multi-year gender action plans for PFIs and associated policy reforms.** The Bank has expanded its successful WiB, YiB and Skills in Business programmes in Central Asia and the Western Balkans, with a new approach in place to further mainstream gender via multi-year action plans now being piloted in the Western Balkans. Gender-responsive investment climate reforms are progressing, with policy reforms targeting young entrepreneurs being piloted for the first time in Morocco. The Bank will launch a new WE Finance Code programme across Central Asia, the Western Balkans and SEMED to introduce national level gender data reporting and regulation to inform financial inclusion strategies.
- **Development of a new Inclusive Regions approach to support people, businesses and communities in less developed parts of the EBRD regions.** This new approach seeks to extend finance, technical assistance and policy support to regions that are affected by decline or changes in labour markets, migration and other challenges such as

shifts in global value chains. It is currently being piloted in Uzbekistan and Serbia via targeted lending to SMEs in less developed regions (under the Financial Intermediaries Framework) combined with support for product innovation.

- **Further embedding of the Bank's intersectional approach.** This includes opening up access to economic opportunities for LGBTIQ+ and other communities, the celebration of the International Day Against Homophobia, Transphobia and Biphobia (IDAHOTB), and the continuation of the Bank's high-profile regional Diversity and Inclusion conferences.

The Action for Equality and Gender Fund (A4EG) was launched on 8 March 2023 and is critical for the implementation of gender mainstreaming and human capital support to clients and policy partners. It enables the Bank to deliver the scale and ambition of its SPGE and EOS, not just in Ukraine, but also across all other parts of its regions. Fundraising will continue to be a priority, including in the context of the Bank's scaled-up operations in Ukraine and future expansion into sub-Saharan Africa. However, donor dependency of staff and operations remains high, with 50 per cent of the Gender Equality and Economic Inclusion team still funded through external sources, which creates risks for longer-term delivery.

The Bank combines internal and external capacity building with the optimisation of processes and tools. Two modules of the EBRD's internal training course, Gender Academy, have been completed by over 900 staff since their launch in 2022, with two new modules to be added in the coming year (Inclusive Procurement, Inclusive Financial Systems), together with a care economy training course for clients. The Bank's Gender Knowledge Hub continues to provide an expanded range of gender toolkits and resources to the 86 gender champions.

3.2.3 Digital transition

The 2021-25 Approach to Accelerating the Digital Transition presents digital transformation as an enabler of the EBRD's transition mandate and outlines how the Bank is able to deploy its toolkit of investments, policy advice and advisory services towards building and fostering:

- **the foundations** of a sustainable and inclusive digital economy by promoting appropriate policies and regulation, access to connectivity through the creation of infrastructure and a skilled workforce
- **the adaptation** of organisations by providing access to finance and knowledge to incentivise the digitalisation of services, assets, business processes and value chains
- **innovation** through start-up-friendly ecosystems and meeting specific financing needs via debt financing and/or direct and indirect equity investments.

In 2022, the first year the Approach was implemented, the EBRD signed 36 investments with a digital component, pursued 50 policy engagements and conducted some 850 local advisory services in support of SMEs' digital transformation.

The Bank's **Digital Hub** leads the mainstreaming of the Bank's digital objectives, ensures programmatic delivery in cooperation with Banking teams and pilots new scalable and resilient initiatives. In 2023 the Digital Hub prioritised activities that create business opportunities for the EBRD, align practices with other IFIs that prioritise digitalisation and advance the Approach's commitments. In particular, it:

- **delivered products, toolkits and guidance notes** designed to incorporate digital dimensions within the Bank's investments and technical cooperation work:
  - in February the Business Digital Agility (BDA) initiative was introduced to build a resilient network of digital instruments for both the public and private sectors in Ukraine
  - the Cybersecurity Resilience Programme assesses cyber risks in EBRD investments and suggests appropriate mitigation actions, supports clients in implementing such measures and supports investments in the cybersecurity sector as a long-term guarantee for economic and social cyber resilience
  - a methodology for the Cities Digitalisation Initiative was designed to create a holistic approach towards identifying investment opportunities in

digital projects and capacity within urban environments, which is being piloted in 2023-24

- a Digital Value Chain Assessment Tool was introduced to address the digitalisation of the EBRD's corporate clients and their ecosystem of suppliers and distributors. This interactive tool helps corporate clients and large SMEs assess and bridge digitalisation gaps within their supply chain.

- **built digital competencies** in staff across key digital themes, through senior leadership masterclasses and learning sessions dedicated to the specific needs of Banking, Policy and RO Digital Champions
- **advanced the mainstreaming of digital considerations** across the Bank's existing transition impact architecture. In particular, the Hub:
  - pursued opportunities with the Impact team for formalising the relationship between digital transformation and transition qualities into clearly defined impact pathways and including digital considerations in the Bank's transition impact assessment and monitoring system.
  - helped to develop programmes with a digital transition focus. One example is the first credit line fully dedicated to SME digitalisation, approved in June 2023 for an initial €150 million.

The Digital Hub will continue to focus on the above three areas, with particular attention being paid to the roll-out and standardisation of digital products and incentive mechanisms for Bank investments with a digital component. Subject to demand, and noting the Hub's limited resources, it is hoped to deliver:

- **products** – full roll-out of the Cybersecurity Resilience Programme, scaling up SME digitalisation credit lines, and consolidation of the EBRD's digital advisory services for clients in a 'one-stop shop' format
- **learning** – building on the insights generated from ongoing initiatives, the learning offer will be tailored to demands generated by the Digital Champions Network as well as by emerging digital trends
- **mainstreaming** – close collaboration with the Impact team on the reform of the EBRD Transition Impact Assessment System and the inclusion of digital considerations therein.

Given the fast pace of technological change, the Digital Hub will continue to monitor and leverage opportunities provided by new digital technologies for clients across the EBRD's countries of operations.

3.2.4 Mobilisation

The mobilisation of private resources allows the EBRD to increase its impact by multiplying the amount of finance it can make available to clients and through building new markets and expanding the range of investor classes in its regions.

The Bank's Mobilisation Approach, approved in December 2021, fulfils a commitment in the SCF to develop the Bank's first comprehensive approach to the mobilisation of third-party capital, primarily from the private sector. The Bank set an ambition there to double the level of Annual Mobilised Investment (AMI) by the end of the SCF period, which is enhanced by policy commitments made under the GCI to reach at least €2.5 billion by 2025, with annual green AMI to be no less than half this amount.

The Approach envisaged that this would be achieved through: (i) substantial growth in the use of existing products such as B loans, parallel loans and insurer mobilisation through the use of unfunded risk participations (URPs); (ii) scaling up mobilisation via the relatively new Sustainable Infrastructure Group advisory programme; (iii) a marked increase in the use of private insurance capacity under the Trade Facilitation Programme; and (iv) the establishment of a new debt co-investment fund, among other measures.

Delivery under the Mobilisation Approach is progressing well and work already completed has strengthened the EBRD's mobilisation capacity markedly. Despite the war on Ukraine and the challenging economic realities in key markets such as Egypt and Türkiye, the Bank achieved AMI of €1.75 billion in 2022 and is on track to reach a similar level in 2023, notwithstanding the continuing challenges in the EBRD's markets. In light of the new mobilisation goal for 2025 an ambitious target of €2 billion AMI is set for 2024. The Bank introduced a new metric to track green mobilisation early in 2023 which showed that over half the AMI volume was related to GET. The Bank will continue with that aim for the mobilisation of green finance in 2024.

Mobilisation captures a wide range of EBRD aspirations by leveraging the Bank's balance sheet effectively, stimulating private sector appetite, serving as a risk management and benchmarking tool and by catalysing systemic change to economic structures. As the established key performance indicator (KPI) for measuring mobilisation in the corporate scorecard, AMI is a critical and necessary tool to incentivise some of these goals.[6] AMI is a *direct* mobilisation metric specific to the EBRD while the measures of direct and *indirect* private mobilisation are reported annually in a joint MDB report using a commonly agreed methodology.

The EBRD delivered €13 billion of Private Indirect Mobilisation (PIM), the harmonised MDB indicator, in 2022, of which €9.3 billion was identified as climate-related indirect mobilisation. Work to capture private mobilisation in a more holistic way around all EBRD products, including in debt capital markets, is in progress and involves better definitions and upgraded processes. Improved internal and external communication is under way to advertise more prominently co-investment opportunities that the EBRD is able to offer various private co-financiers.

On new products, the EBRD successfully signed several transactions under its Non-Payment Insurance (NPI) pilot throughout 2023. NPI complements the Bank's Insurer Mobilisation Programme and adds to the already very successful URP product deployed since 2015. The EBRD's dialogue with institutional investors on a potential debt co-investment fund continues in anticipation of the moment when private debt markets in the EBRD's countries of operations are more conducive to fund raising. Work with several donors is also progressing to use blending to mobilise finance, broadening the scope for mobilisation to include transactions which would otherwise not be placeable with private investors. The structuring of new banking products has focused closely on leveraging the EBRD's own investment amounts, and specifically for intermediated products by covenanting private on-lending multiples in bond and loan transactions.

Further work is under way to grow the EBRD's advisory business, notably in the complex area of creating markets for PPPs and energy auctions. Advisory work here helps develop the legal and structural environment that makes PPP and energy transactions investable for private sponsors and bankable for commercial financiers, ultimately leading to substantial private mobilisation.

3.2.5 Support for less advanced transition countries

The Bank's mission to support the transition towards sustainable market economies is especially valuable in less advanced transition countries, where development needs are high and capacity for reform is often limited. Over a long period, the Bank has worked to tailor its toolkit through innovation and adaptation to address the challenges in these economies. The SCF set out the Bank's aim to increase the proportion of its investment activities in these countries, recognising that investment levels depend on the overall business and reform environment.

Many less advanced transition countries are small economies facing difficult business environments. They require significant investment financing assistance, particularly in view of weak financial intermediation arrangements. Furthermore, SMEs form the largest part of the private sector and EBRD financing facilities can offer these enterprises vital support. Management pays particular attention to these dimensions in these regions through well-targeted country strategies and by investing in a wide range of sectors and supporting local entrepreneurs and reform-minded authorities.

Less advanced transition countries have relatively low incomes per capita and weak market structures, institutions and behaviours.

[6] As set out in the Review of Corporate Scorecard, 2020, and in the Strategy Implementation Plan 2023-25, AMI is attributed by management to financing which meets Board-approved AMI criteria. These are included for information, when known at the time of Board submission, in Board documents for the relevant projects. All AMI amounts are reported in detail to the Board in the annual update from Debt Mobilisation to the Financial Operations Policy Committee. For details of the current definition of AMI see Annex 2.

Among the economies where the EBRD operates, those in the ETCs, SEMED and Western Balkans (ETC+)[7] broadly fit this category. SIP 2024-26 supports the Bank's engagement in these countries through its commitment of substantial resources and planned further investments and other activities.

The Bank's commitment to these countries is manifested by the fact that in 2022, 60 per cent of EBRD projects by number were invested in ETCs, SEMED and the Western Balkans; and so far in 2023, 174 projects have been signed, 5 per cent higher than in the same period in 2022. Bearing in mind the higher-than-average unit investment costs involved in these economies (due to difficult business environments and a higher proportion of smaller transactions with SMEs), these figures imply that a significant majority of the Bank's operational resources is devoted to helping the transition of these countries. This is expected to remain the case during the rest of the SCF period.

The Bank's effort to improve delivery, including through the allocation of staff to resident offices (ROs) and the development of local currency options, will continue to assist these countries in 2024. Resources allocated to SCF priorities – in particular GET energy efficiency, renewables activities, climate risk assessment, inclusion projects to support women-led businesses, training opportunities for young people and digital transition – are also making important contributions to developing the Bank's engagement in less advanced transition economies. Similarly, resources in key delivery enabling functions will continue to proportionally support finance, IT platforms, due diligence and control processes associated with transactions in less advanced transition countries.

Furthermore, significant policy engagement continues to be focused on these countries, helping to drive policy reforms and open up investment opportunities, and thereby increases the Bank's systemic impact.

The Bank reaffirms the SCF scorecard share target for ETC+ countries of 48 per cent of total ABI and will endeavour to meet it in 2024. Despite the Bank's record deliveries in the ETC+ countries, achievement of this ratio target, however, has been made technically more difficult since 2022 as a result of the significant efforts to support Ukraine and other countries affected by the war, most of which are not included in the ETC+ group. As this pattern is likely to persist into 2024, some context is helpful to understand the origin and purpose of this ratio.

When the baseline for the target was set (using data for 2018-20 as the reference period), ABI in the ETC+ group averaged €4.9 billion and in other countries €5.3 billion, with total ABI €10.2 billion. The intention of the ratio was to ensure an increased business focus on ETC, SEMED and Western Balkan countries, with the implicit assumption that business elsewhere was more mature and would remain more stable in aggregate.

In 2022, the Bank invested a record amount of €5.6 billion in the ETC+ countries and is on course to match and probably surpass this level in 2023. Taking account of the fact that investments are no longer made in Belarus and that Lebanon presents very limited opportunities (both very active members of this group in the reference period), the increase in volume of activity in the ETC+ group on a like-for-like basis exceeds €1 billion, and thereby fulfils the intention of the target.

Meanwhile, the Bank also responded to unexpected events in Ukraine and other war-affected countries (and in 2023, to the earthquake in Türkiye) by increasing ABI outside ETC+ countries by over €2 billion, significantly above what was anticipated when the target was set initially, and thereby diluting the share ratio.

Faced with this situation, management chose to maintain a path of higher investment volume to respond to needs and priorities across the board – with associated benefits for transition – rather than scale back business in some regions to meet a given geographic percentage ratio. While the changing context from 2022 devalued the scorecard share target, the Bank clearly met its purpose by delivering successfully in both ETC+ and other countries.

Irrespective of the share target itself (which for now remains set nominally at 48 per cent), ABI volumes in the ETCs, SEMED and the Western Balkans are expected to grow further in 2024 and thereafter, while the EBRD's efforts to

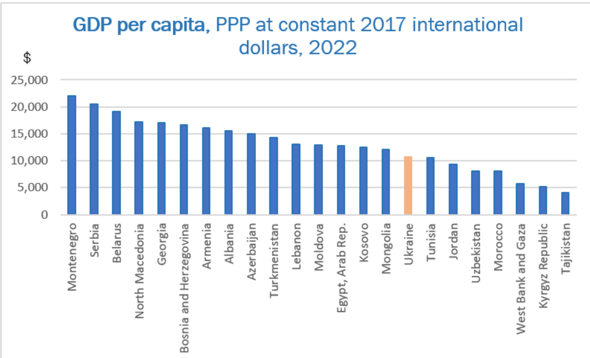
[7] ETC+ excludes the West Bank and Gaza, unless otherwise specified.

support Ukraine and affected countries, as envisaged under the GCI, will continue to accelerate.

Discussions in 2024 in preparation for SCF 2026-30 will allow consideration of suitable metrics for future assessment of the Bank's progress in supporting the transition of less advanced transition countries.

By way of further context, Ukraine currently exhibits several characteristics of a less advanced transition country, a situation exacerbated by Russia's military onslaught. For example, the World Bank estimated Ukraine's per capita income in 2022 at US$ 4,270 in current dollars (Atlas method) and US$ 10,731 in constant 2017 dollar PPP terms, making it the 15th and 16th lowest respectively among the 23 ETC+ economies[8] – and placing it firmly in the lower half of the ETCs, SEMED and Western Balkans' group.[9] See Figure 3.1. The Assessment of Transition Qualities (ATQs) also confirms that Ukraine, like others in this group, shows significant transition gaps in all qualities.[10]

Figure 3.1 GDP per capita in ETC+ economies, 2022



3.3 The role of donors

3.3.1 Donor funds

Donor funds have always been a key financing source for the Bank's activities. Even prior to Russia's invasion of Ukraine, nearly half the investments in the EBRD's active portfolio (by number) benefited in some way from the support of donor or net income funds; while many other activities, such as advisory services, project preparation or policy reform, are fully funded by donor resources.

The importance of donor support increased significantly with the onset of the war on Ukraine where most subsequent operations have been backed by donor-funded guarantees. Thanks to strong donor support for Ukraine the Bank raised a record amount of donor funding of €2.1 billion in 2022, with this trend continuing into 2023 and likely beyond.

3.3.1.1 The important role of donor funds in Ukraine

The vital and successful partnership with donors and shareholders over the course of the war has enabled the EBRD to share the risk associated with its investments in Ukraine equally with its partners on average. The increase in the EBRD's paid-in capital will allow the EBRD to invest sustainably, even in these exceptional conditions, without a systematic reliance on risk sharing resources from shareholders and donors.

Following the capital increase, the Bank will use donor resources in the same way, on the same basis and subject to the same criteria and controls as in other counties of operations. Donor resources for Ukraine in 2024 may be used to address residual bankability constraints or exceptional risk in high impact projects or pioneering new products; to partner with donors to channel grants or concessional loans for specific projects in Ukraine and to enhance the transition impact of projects beyond what the EBRD can deliver with its own-account (commercial) finance.

[8] Including West Bank and Gaza for comparison purposes.
[9] The World Bank Atlas method used a cut-off from 1 July 2023 of US$ 13,845 for UMICs and US$ 4,465 for LMICs, making Ukraine a lower middle income country.
[10] See EBRD (2023), *Transition Report*, Chapter 5, 'Structural Reform'.

Table 3.1 2023 Donor Funds Indicative Mobilisation Plan for future use in Ukraine

Source	€ million
Grants	160
Concessional loans	0
Risk-sharing and guarantees	363
Total	**523**

Note: Figures are best estimates, based on exchange rates at 27 October 2023. Grants include TC, incentive and investment grants.

Indicative donor funds available for use in Ukraine are shown in Table 3.1.[11] Investment grants will be needed to support clients involved with roads and railways who are trying to mitigate the effects of the blockade of the Black Sea, and in the energy sector. Donor finance for project preparation activities is also vital for project development. Concessional resources will be needed to support the Ukraine Recovery and Reconstruction Guarantee Facility (URGF), which will be piloted from early 2024 with the objective of relaunching the private insurance market in Ukraine. Policy activities involving the EBRD are expected to grow quickly under the URA programme in 2024, with a strong need for technical cooperation (TC) grants for the Ukraine MDA,[12] alongside support for human capital and resilience activities. Small business advisory services will similarly use these grants to support the relocation and reconstruction of SMEs in Ukraine.

3.3.1.2 Donor resources and their uses beyond Ukraine

Access to grants and concessional finance across the economies where the EBRD operates plays an important role in all regions, especially so in sectors such as sustainable infrastructure and in the Bank's less advanced regions,[13] a factor that is compounded by volatile geopolitical and macroeconomic circumstances. Prolonged slower growth and a higher interest rate environment is squeezing borrowers and clients, stretching their capacity to repay debt. Meanwhile, the emergence of new pressures from events such as the earthquakes in Morocco and Türkiye, an ongoing conflict in Armenia and the humanitarian crisis and heightened tensions in the Middle East have added to the need for concessional resources across the EBRD regions.

At the same time, the difficult global outlook is leading to a reduced fiscal space in donor countries, tighter aid budgets and less headroom in the EBRD shareholder countries to support the Bank and other IFIs through donor funds. Warning signs are already visible in the diversion of this financing to priority domestic policy needs. A close partnership with donors will therefore remain essential to the delivery of the EBRD's business plan in 2024, especially given the Bank's exposure to Ukraine relative to other IFIs.

In view of these factors, funding requirements to support the Bank's planned business volume and other activities remain high in a more difficult fundraising environment. Table 3.2 shows the current indicative mobilisation plan for funds (excluding those for Ukraine) to be used in 2024 and beyond. This amounts to €2.1 billion, or €2.7 billion when funds raised for Ukraine are included. Funds will be mobilised for a variety of instruments and purposes in order to match project needs now and as they are implemented in the future. It may be noted that of the €1.7 billion expected to be raised by year-end, a large amount, €1.4 billion, comes from the EU.[14]

Table 3.2 2023 Donor Funds Indicative Mobilisation Plan for future use, excluding funds for Ukraine

Source	€ million
Grants	1,067
Concessional loans	169
Risk-sharing and guarantees	906
Total	**2,142**

Note: Figures are best estimates, based on exchange rates at 27 October 2023. Grants include TC, incentive and investment grants.

The importance of more elaborate financial instruments, especially unfunded guarantees, has been growing, with a threefold increase in the number of Bank-funded operations benefiting from their use in the five years to 2022. This trend is continuing and is expected to do so further.

[11] The Table includes €55 million to be used in Moldova as an ETC directly affected by refugee flows from Ukraine.
[12] EBRD Ukraine Stabilisation and Sustainable Growth Multi-Donor Account (Ukraine MDA).
[13] €789 million of funds, or 57 per cent of the total used in 2022, was allocated to eastern Europe and the Caucasus, SEMED and Central Asia.
[14] This includes €678 million for the Western Balkans Joint Fund, of which around 40-50 per cent is for the EBRD's use, with the rest managed by the EBRD for use by other IFIs.

Looking to the future, the Bank expects to see a high demand for grants, concessional loans on flexible terms and additional access to unfunded guarantees from the EU and bilateral donors. These can be drawn upon as risk-mitigating instruments over several years and eventually be used to help with reconstruction in Ukraine.

The EBRD's donor community is growing and the Bank has welcomed contributions from several new donors in recent years. Before the war on Ukraine, increasing volumes of donor inflows came from multilateral donors, such as the EU and the global climate funds. However, strong support for Ukraine from bilateral donors shifted the balance in 2022, though only temporarily.

In addition to its Ukraine response, the Bank will concentrate next year on raising and channelling bilateral funds into multi-donor vehicles, for example the climate finance vehicle HIPCA,[15] the new Blue Mediterranean Partnership and the multi-donor Gender and Inclusion Fund launched in 2022. This will take place alongside regular outreach to the Bank's multilateral donors.

The Bank will also mobilise net income to blend with its investments as well as for policy reform and advisory services. The Shareholder Special Fund (SSF) will remain a vital resource for the Bank to respond flexibly to needs, complement donor finance and support key SCF priorities.

A comprehensive analysis of concessional resource needs for the coming year based on modelling and a bottom-up view by sector and regional teams presented in the Forecast Usage of Concessional Resources,[16] which for the first time combines the Donor Funding Outlook and the SSF Needs Analysis, shows that concessional resource needs remain high, amounting to at least €2 billion in 2024.

3.3.2 Donor fees

The Bank manages over 250 funds on behalf of donors. In accordance with the Bank's *Fees for Donor Funds* policy it charges donors a fee to cover the costs related to the management and administration of those funds, including the incremental costs associated with meeting donor obligations.

Viewed from an accounting perspective, the Bank engages in the business of managing funds for which it receives income and incurs costs. Whereas the costs are incurred over a long period (the life of the fund), the income is paid mainly up front. The Bank each year releases an amount of fees to cover the anticipated costs to be incurred in that year.

To be aligned with the Bank's donor fee policy, the following key principles are applied when planning for the use of these fees:

- Relevance. Additional resources and costs should be relevant for donor activities. They must be related to and generated by projects implemented, or facilities managed, by the EBRD.
- Eligibility. Agreed resources and costs must meet the eligibility criteria of donors.
- Time-bound. Since fees are received in connection with donor funds/projects that follow a specific timeline, all costs charged to fees must be time-bound.

As part of the annual business planning process, teams involved in the donor funds business are invited to put forward a request for the use of donor fees. These cases are assessed against the criteria set out above and prioritised in relation to the needs of the business and availability of donor fees in that year, as determined by the Bank's fee income release model.

The model used to determine the amount of income released each year is based on a number of assumptions around which there are varying degrees of certainty. Therefore, it is likely the release each year will display some volatility. The release for 2024 is £19.6 million. Given the need for the Bank to deliver on its core priorities, including support for Ukraine and the green economy transition, and with a reserve held back in previous years, the Bank plans to run a small deficit in 2024, with expenses exceeding income by £0.8 million, marginally offsetting the substantial surpluses recorded in 2022 and 2023. See Table 3.3.

[15] High Impact Partnership on Climate Action.
[16] 2024 Forecast Usage of Concessional Resources, 2023.

Table 3.3 Donor Fees 2022–2024 (£ million)

£ million	2022 Actual	2023 Estimate	2024 Estimate
Income	17.9	24.5	19.6
Expenses	12.8	17.0	20.3
Net impact	5.0	7.5	(0.8)

Of the total fee budget for 2024, over 80 per cent will cover the costs of existing staff (including extensions to positions) and ongoing non-staff costs, such as audit fees, bank charges and some costs related to communications. The remainder of the budget will be spent on:

- around 10 new fee-funded staff positions, covering high priority needs to support the Bank's work on sustainable infrastructure, the green economy and to address the greater complexity of administering new instruments such as unfunded guarantees
- non-staff costs related to important internal functions such as legal counsel, reporting and donor communications.

3.4 Driving internal efficiencies and effectiveness forward

3.4.1 The transformation agenda

In 2020 the EBRD committed to undertake a significant Multi-Year Investment Plan (MYIP) aimed at modernising the Bank by addressing the recognised under-investment in its IT estate, simplifying and digitalising core business processes, while innovating to ensure the Bank remains relevant for the future.

At its heart is a cultural shift within the EBRD to embrace digitalisation and efficiency so that the Bank can remain a leading international financial institution, delivering on the current and future SCFs. To drive this transformation agenda forward across the Bank, a Transformation Office was established in 2022 reporting to the EBRD's first Chief Transformation Officer (Vice President).

The Transformation Office (TO) oversees the MYIP and coordinates internal business projects, from action plans to monitoring progress and the completion of initiatives. It ensures the Bank takes a holistic approach by looking at its people, processes as well as data and technology. It provides high quality services, technology and change expertise that supports departments to achieve their core operational objectives. The TO oversees a consistent approach across all change projects within the Bank, using a standard set of tools and coordinated sequencing within a single roadmap, ensuring dependencies are identified and managed.

Transformation is helping the Bank to deliver the SCF. More specifically, this agenda is intended to make the EBRD an institution that is:

- digitally-enabled, which adds value through technology
- equipped with an expert workforce able to use data confidently and make decisions based on good access to analytics and decision-support tools
- well connected across all its locations and is able to properly share and collaborate with stakeholders and clients in line with their expectations.

Investment under the MYIP has proceeded in line with these objectives through a series of phases, the first of which is nearing completion, with two in-flight and the fourth subject to endorsement in this SIP, as set out in Chapter 5, section 5.

Phase 1. Fixing outdated systems through essential technology and moving to a new HQ

- As well as switching to two state-of-the-art data centres, the first phase involved the move to a new headquarters. Both helped to reduce IT risks. The data centres provide a resilient backbone for EBRD software applications and enhanced business continuity while a modern, sustainable headquarters offers a best-in-class working environment for staff. The building successfully achieved EPC A status and an 'outstanding' BREEAM rating.
- Remote working at scale is also being delivered through the rollout of Microsoft 365, enabling enhanced collaboration and team productivity, with a global network refresh for all ROs under way.

Phase 2. Investing in client-centric initiatives and frontline functions

- The focus of this phase is on the business processes relating to business development and origination, lending and equity investments, advisory services as well as policy and donor co-financing activities, including data governance and remediation, among others. It consolidates and expands key capabilities such as Monarch, the Bank's digital platform for processing investment and advisory projects. Other projects include the reform of donor funds processes, simplifying the screening of counterparties and modernising the EBRD's website.

Phase 3. Improving corporate processes and platforms to achieve internal efficiencies and reduce operational risks

- Phase 3 projects focus on future-proofing core corporate processes and controls, with major transformation initiatives in the Finance, Treasury, Operations, Procurement and HR departments. As well as a long-overdue upgrade of enterprise and HR management systems, this is simplifying Bank policies and processes.

Phase 4. Enhancing user experience and knowledge management for clients, partners and other stakeholders

- The aim of Phase 4 is to improve how the Bank interacts with its clients and partners thereby enhancing their experience as EBRD users. Projects will deliver additional capabilities such as a new client portal, a strategic information management suite, and digital product offerings.

The MYIP has successfully enabled the Bank to address high risk levels arising from outdated legacy systems, as well as hybrid working, supported the HQ move and data centre migration, and has freed up staff time to deal with new challenges without substantial core budget increases.

3.4.2 Operational sustainability

The successful delivery of the Bank's mission depends on the capability and capacity of its operating platform. This comprises the processes involved in executing the Bank's business and the systems that support its functions and people. To deliver for its clients the Bank needs an effective, efficient, sustainable and secure banking operating platform. It is only through investment in the critical components of this platform that the Bank can supply the services needed to for it to grow and meet its objectives in all operating environments – including when unexpected internal or external events occur. By doing so, the Bank's exposure to material risks leading to financial loss or reputational damage is reduced.

Active identification and mitigation of material risks impacting the Bank's operating platform is a business necessity and is seen as a core competence by stakeholders, rating agencies, clients and counterparties. The Bank has several mechanisms in place that support the review of material risks and which foster a sound and sustainable risk management culture. These include an operational risk management framework, a measure of operational risk in its corporate scorecard, a senior management operational risk accountability process and a commitment to continuously review and address the Bank's operating platform needs.

A key objective of this work is to foster holistic business ownership by the EBRD's senior managers.[17] This means extending their role beyond regular business goals and staff management to take ownership of end-to-end processes, the relevant data architecture and data quality as well as systems design and delivery. This sharing of responsibility promotes the escalation of major issues that drive inefficiency and stretch resources, that create operational risks and potentially reduce operational effectiveness.

In turn, this escalation provides greater awareness of the priority needs for investment – in processes, data and systems – that will lead to improvements in the overall efficiency and effectiveness, resilience and agility of the Bank, while simultaneously reducing risk.

Some of the issues escalated may be resolved locally while others require a broader approach through cross-departmental coordination or sizeable investment in process redesign, or external services or technology, in order to deliver effective solutions. Currently, the demand for wider, cross-departmental problem solving is high and is coordinated under the umbrella programmes of the MYIP and the Transformation programme.

These programmes have already delivered major improvements in our resilience and capability, as outlined in the previous section, such as new data centres, upgrades of critical systems and remote working capabilities. However, the list is

[17] In particular, the senior leadership group of managing directors.

long and the scale significant leading to a medium-term horizon for material resolution of the current list. In consequence, the non-financial risks reported to the Board on a quarterly basis[18] remain high in several areas while in other areas the Bank remains stretched in terms of resources to conduct manual remedial and enabling work. Examples include:

- **Cyber risk**. The EBRD in London and in its regions is facing a sharp rise in the volume of cyber-attacks and related threats. Many organisations have been affected by this menacing development and suffered debilitating effects on their business, which requires sizeable investment to counter. Current initiatives are helping to strengthen the Bank's response and internal control capabilities against these threats. However, significant risk management gaps remain and the remediation required will involve considerable investment in medium- and longer-term service and technology changes and enhancements.
- **Complexities due to war**. The war on Ukraine has resulted in the need for expedited turnaround times, complex restructuring cases, additional integrity and sanctions work, an increase in client waiver requests and more corporate recovery projects. The projected expansion of activities in Ukraine, coupled with growth in new products and services, will further drive up transactional processing and loan management requirements as disbursements and new signings advance.
- **Donor funds**. The number of active projects in the Bank's portfolio is increasing by around 2 per cent a year during this SCF and with it a growing dependency on donor funds and corresponding reporting requirements. A funded programme of work is under way to streamline donor funds processes (including climate funds) and enable efficient fundraising, administration and deployment of funds, as well as ensure projects are implemented in accordance with compliance requirements. Overall process improvements are expected to be delivered in the longer term. However, in the interim, issues across the donor funds' business are being addressed through manual processes. This is not sustainable, especially in view of the scale of activity and the limited resources available. Given the complexities involved, the donor funds' programme is running at elevated risk levels with a potentially high number of errors and omissions at stake.
- **Climate risk**. Climate change risks, changing regulations and the Bank's own commitments require the assessment of clients, counterparties and suppliers who operate in industries exposed to climate risk. Consideration of the impact of climate change on development, the booking and valuation of certain financial instruments and services offered by the Bank, including monitoring, reporting and verification (MRV), can also have a high impact on the Bank's business and operations. Furthermore, forthcoming sustainability reporting requirements under the International Sustainability Standards Board (ISSB) and the EU Corporate Sustainability Reporting Directive (CSRD) will substantially increase reporting burdens on the EBRD and will require substantial investment and resources to manage compliance and limit reputational and other risks that the Bank will face.
- **Workload pressures**. Efforts continue to tackle risks from workload pressures driven by rising transactional volumes and complex manual processes, although these are only likely to have an impact in the longer term. The required scale of organisational change arising from the essential investments and redesign of processes of itself creates a temporary increase in workload pressures and anxiety. This is being proactively managed as a necessary phase in order to achieve the longer-term ambition.

The Bank's operational sustainability is under strain and risks remain high, although slightly less so than a year ago due to investment in delivering improvements in resilience and because the exceptional changes to the Bank's business that the war on Ukraine created have been largely absorbed. Moreover, material comfort can be drawn from the continuing large-scale investment and transformation programmes that are attempting to address the current list of key outstanding concerns.

[18] In the *Quarterly Performance Report*.

3.4.3 Understanding impact and learning from self-evaluation

As a development institution, the EBRD has focused on impact since its earliest days when it first introduced the concept of transition impact. Its countries of operations are at various stages of the transition towards sustainable market economies and it is the Bank's job to assist them in this journey by providing investments and advice. The EBRD's shareholders support this process and hold the Bank to account for delivery of its impact, as evidenced in the Bank's scorecard and in the descriptions of SCF priorities and results in this and earlier chapters.

Developing a clear understanding of the effectiveness of its interventions through self-evaluation also helps management incorporate lessons learned in the way the Bank approaches new projects and develops ideas and products that can assist its countries of operations better. Learning from experience and understanding impact plays an important part in making organisations effective and strengthening institutional performance. This applies to the EBRD and is why the Bank has devoted resources to developing its capabilities in this area.

An external assessment commissioned a few years ago (the *Kirk Report*)[19] looked at the Bank's approach to self-evaluation and concluded that the system needed to be substantially improved. Following this report, management committed to take ownership of the self-evaluation system (SES) and develop it. Peer organisations well advanced in this area can credibly attest to how their self-assessment systems link lessons learned with new business opportunities.

At the outset of the current SCF therefore, management introduced a self-evaluation enhancement project, staged over five phases. with the goal of developing credible impact narratives from the assessment of results at project and thematic levels and learning from them. The phases involved revising project-level self-evaluation, setting up a new unit focused on thematic assessments, designing new products and coordinating the work with counterparts in the Evaluation Department (EvD). The EBRD's new approach is intended to meet Board expectations on accountability and learning.

The final phase started towards the end of 2022 with the detailed design and launch of the new system built around two interrelated components, one focused on accountability and the other on learning:

- **Mandatory self-evaluations**. A Summary Project Assessment (SPA), led by the Portfolio Banking Department, forms the core of this component. The SPA is designed to provide a holistic perspective of a project's performance based on its relevance, effectiveness and efficiency and is allocated a success score. Management are accountable for project performance and lessons learned.
- **Demand-driven activities**. These comprise structured evaluations of project-based and thematic issues of immediate operational or strategic relevance to Bank business activities and are to be conducted and managed by a new Impact Assessments and Foresights (IAF) team.[20] Topics are demand-driven – where there is a willingness to learn – and will reflect recent experience and draw on inputs from other departments. The aim is to apply findings to EBRD activities and disseminate results across the Bank for learning purposes.

In April 2023, the Portfolio Banking team began piloting SPAs in a number of sectors based on a new template prepared in collaboration with EvD. Following a stock-taking exercise in the autumn, the self-evaluation approach will be mainstreamed across all Banking operations. Further work with EvD is being undertaken on enhancing the sampling methodology to ensure it covers sub-operations of frameworks such as the DFF and TFP.[21] Management intends to use SPAs to generate insights on performance for future operations, to help identify areas for deep-dive studies and for annual reporting to the Board on aggregate performance.

The IAF team, which began its work this year, has developed a three-year rolling work programme of thematic evaluations based on topics

[19] Independent external evaluation of the EBRD's evaluation system, *Kirk Report*, Audit Committee, 2019, https://www.ebrd.com/what-we-do/evaluation-overview.html.
[20] IAF is a branch of the Impact team.
[21] Direct Financing Framework (DFF) and Trade Facilitation Programme (TFP).

originated by Banking and other teams, such as the Office of the Chief Economist, and incorporating topics prioritised by donors. The programme aligns with SCF priorities and deals with topics where there is a clear knowledge gap or areas highlighted by EvD evaluations.

IAF thematic assessments will draw on findings from SPAs to generate useful lessons for staff and will be collected in a "lessons database" jointly managed with EvD. Collectively, results from SPAs, SPA validations and IAF thematic activities will contribute to the wider Knowledge Management system and spearhead the Bank's understanding of its development effectiveness. The work will also contribute to the transformation agenda. New empirical methods and novel technologies (for example, geospatial, generative artificial intelligence) will be used to support these efforts.

The SES will increase evaluative capacity within the Bank and increase the focus on impact. The Bank will benefit from curated lessons and their dissemination, bringing the understanding of impact closer to the heart of its operational activities. The material will provide a sound information base for a proposed annual EBRD impact report (currently in a pilot phase).

Plans are also under way to develop Impact Foresights. Foresight is an approach pioneered at Stanford University in the early 2000s which tries to address complex problems and future planning as systematically, creatively and efficiently as possible. It is a method embraced by many governments, including in the UK and Singapore, and organisations like the IMF, the World Economic Forum and private companies (such as JP Morgan, Shell and McKinsey) to solve novel problems faced by their stakeholders.

By employing Foresight methods, including techniques such as horizon scanning, megatrends and scenario planning, the Bank hopes to improve its strategic awareness, enhance policy and impact design and ensure short-term actions are consistent with long-term objectives. An innovative and initiative-taking approach to thinking about opportunities for generating impact in future business is essential for the EBRD to exercise thought-leadership in the Impact community, including with impact investors.

3.5 The pace and pattern of investment activity

This section presents the Bank's projected activity and portfolio over the period 2024 to 2026 in line with its operating principles and the strategic directions of the SCF.

The war on Ukraine and its consequences are expected to retain a central role in the Bank's investment activity throughout the SIP period. The Bank is supporting its countries of operations under difficult conditions, focusing its efforts on helping them cope with the impact of the conflict, the ongoing effects of inflation and cost of living crisis, as well as dealing with energy and food security issues. By the end of the third quarter, annual investment had reached €8.4 billion for 317 operations, an increase of 12 per cent in volume and 15 per cent by number compared with the same period in 2022. Based on this performance and the pipeline outlook for the remainder of the year, ABI is expected to reach the upper end of the 2023 business plan with the number of operations also likely to be at the upper end of the scorecard range of 395 to 435.

The projected levels of activity below take account of the challenging economic and financial environment described in Chapter 1 and an assessment of business opportunities in countries of operations in line with the EBRD's strategic objectives. The upper end of the ABI range is projected at €12.5 billion for 2024, rising to €13.6 billion in 2025 and €14.2 billion in 2026. Projected activity is based on the following assumptions:

- A continuation of significant support to Ukraine and countries affected by the conflict. Specifically, annual volume in Ukraine is estimated to increase from up to €1.5 billion towards €2.5 billion in 2025 and 2026. This takes into account business volumes anticipated in the GCI paper[22] and is subject to the form and scale of shareholder and donor support during the period.

[22] Report of the Board of Directors to the Board of Governors: Proposal for a paid-in Capital Increase, 2023.

Table 3.4 Number of Operations and Annual Bank Investment 2022-2026 (€ billion at plan rate €/$1.05)

	2022 Actual	2023 Estimate	2024 Projected	2025 Projected	2026 Projected
Annual Bank Investment	13.1	12.5	11.5–12.5	13.6	14.2
Number of Operations	431	395-435	395-435	up to 450	up to 450

- The projections assume an extension of the Bank's operations to sub-Saharan African countries and Iraq in line with volumes considered at the 2023 Annual Meeting in Samarkand.[23]
- The equity share of ABI is assumed to return gradually to pre-crisis levels of around 7 per cent over the SIP period.[24]
- Sovereign lending is projected at around 18 per cent of ABI, slightly below the average for the period 2020 to 2022 (19 per cent) and in line with a private share ABI objective at 75 per cent.
- The share of trade facilitation activities is projected to be around 17 per cent of ABI, up from 15 per cent in SIP 2023-25. This reflects increased importance of this instrument in delivering transition and trade support across the Bank's regions. TFP amounted to 18 per cent of ABI in 2022.

The nature of the Bank's response to the impact of the conflict and the energy and food crisis has influenced the average size of the Bank's projects, and shows a similar to trend to that observed during the Covid-19 crisis. The average size of projects increased to almost €25 million in 2022, up from less than €21 million the year before. Activity so far in 2023 indicates an average project size of around €22 million. Based on planned ABI growth, the number of operations is projected to remain in the range of 395 to 435 in 2024 and to grow marginally thereafter, reflecting a continuing increase in average project size.

The Bank's portfolio and operating assets are driven by a range of parameters, including ABI and disbursements on the inflow side and portfolio reflows (repayments, pre-payments, divestments and cancellations) on the outflow side.

Annual disbursements reached the record level of €7.1 billion by the end of the third quarter, close to 20 per cent above the 2022 level for the same period and well above the peak observed during the 2020 crisis response. Reflecting activity at the upper end of the range for the period 2024 to 2026 and the continued growth of non-disbursing guarantee products, disbursements are projected to be in a range of €8.0 billion to €9.0 billion in 2024, and up to €9.5 billion and €9.9 billion in 2025 and 2026 respectively.

Portfolio reflows have grown steadily since 2018, with the notable exception of 2020 in the midst of the Covid-19 crisis. The increase, of 22 per cent, has, however, been in line with growth of the Bank's portfolio of 23 per cent between 2018 and 2022. Among these reflows are major trend variations in the underlying components. Analysis of individual reflow parameters, based on actual information (for example, scheduled repayments on existing operating assets) or estimated ratios to operating assets (for prepayments, divestments and write-offs) and cancellations, shows reflows over the SIP period projected to continue at an average of 15 per cent of the opening portfolio stock using the following assumptions:

- Annual repayments are projected at around 16 per cent of the unimpaired loan operating stock, showing a return to historical pre-crisis levels. The concentration of short-term assets under the Financial Intermediaries and Resilience Frameworks is expected to

Table 3.5 Annual Disbursements 2022-2026 (€ billion at plan rate €/$1.05)

	2022 Actual	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Disbursements	8.8	7.5 - 8.5	8.0 – 9.0	up to 9.5	up to 9.9

[23] See the Report of Board of Directors to the Board of Governors on the Amendment to Article 1 of the Agreement Establishing the EBRD, BG32-4, 2023. https://www.ebrd.com/news/publications/policies/annual-meeting-2023-proceedings.html.
[24] The average equity share from 2016 to 2019 was 7 per cent. It rose from 4 per cent in 2020 to 6 per cent in 2022.

Table 3.6 Portfolio Reflows 2022-2026 (€ billion at plan rate €/$1.05)

	2022 Actual	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Portfolio Reflows	7.8	up to 7.9	up to 8.5	up to 8.5	up to 8.8

diminish while the rise of impaired assets in 2022 affects future repayments.

- Annual prepayments are projected at around 5 per cent of unimpaired loan operating assets over 2024 to 2026. After a sharp decline in 2020 due to the pandemic, prepayment levels recovered to pre-crisis levels. Prepayments totalled €0.6 billion at the end of the third quarter, lower than the total in the same period a year earlier.
- Annual divestments accounted for 15 per cent and 9 per cent of opening equity stock in 2021 and 2022, respectively, following an average of 14 per cent between 2016 and 2021. Divestments are assumed to average 13 per cent over the SIP period, reflecting the current higher share of equity funds in the Bank's portfolio.
- Cancellations increased to 7 per cent of undrawn commitments in 2022 driven by the initial impact of the conflict and the cancellation of outstanding commitments in Belarus. At the end of the third quarter, cancellations total €0.6 billion, a drop of over one-third compared with the same period in 2022. The ratio of cancellations is projected at an annual rate of around 4 per cent over the SIP period, similar to the average observed between 2018 and 2022.

Based on these projections of annual disbursements, portfolio reflows and investment activity levels, the Bank's portfolio and operating assets are projected to increase by up to 17 per cent and 22 per cent respectively from 2022 to the end of 2026. Taking account of projected portfolio growth, historic trends and the anticipated average project size and projected reflows, the number of active projects in the Bank's portfolio is projected to increase by around 7 per cent from 2,276 at the end of 2022 to up to 2,450 by the end of 2026.

From a regional perspective, eastern Europe and the Caucasus and the SEMED regions are projected to retain the largest portfolio shares, while the highest portfolio growth rates are expected to occur in eastern Europe and the Caucasus, central Europe and the Baltic states, SEMED and Central Asia. Portfolio composition is a function of region-specific activity levels reflecting transition opportunities and the Bank's additionality, product composition, reflow rates and the maturity of the portfolio. Reflecting these parameters, illustrative portfolio projections for 2023 to 2026 presented in Table 3.8 show that:

- the **Central Asia** portfolio is expected to grow by 9 per cent from €6.9 billion at the end of 2022 to €7.5 billion at the end of 2026, reflecting projected activity levels in the region
- the portfolio in **central Europe and the Baltic states** is projected to rise to €10.6 billion by 2026, up from €8.3 billion in 2022, as a result of increased investment levels to support countries affected by the war on Ukraine
- in **Cyprus and Greece** the portfolio is projected to decrease from €2.4 billion to €2.0 billion by 2026 due to amortisation of the current portfolio and the planned cessation of new activities in Greece from the end of 2025
- **the eastern Europe and the Caucasus** portfolio is expected to grow by 44 per cent from €8.8 billion to €12.7 billion in 2026, an increase driven by the intensification of support provided to Ukraine
- the Bank's portfolio in **Russia** is expected to decrease by more than one-third over the SIP period to less than €0.5 billion as equity divestments are made

Table 3.7 Portfolio and Operating Assets 2022-2026 (€ billion at plan rate €/$1.05)

	2022 Actual	2023 Estimated	2024 Projected	2025 Projected	2026 Projected
Portfolio	53.7	up to 56.1	up to 57.5	up to 60.1	up to 62.8
Operating Assets	37.0	up to 39.0	up to 41.1	up to 43.5	up to 45.6
Active Portfolio Operations, number	2,276	up to 2,320	up to 2,360	up to 2,400	up to 2,450

- the portfolio in **south-eastern Europe** is projected to grow marginally to €10.2 billion in 2026 based on a combination of new projects and the maturity of the Bank's assets in the region
- the **SEMED** portfolio is projected to grow by 23 per cent between 2022 and 2026 to reach €11.4 billion as a result of higher activity levels, including the assumed start of operations in sub-Saharan Africa by 2025
- the portfolio in **Türkiye** is projected to increase to €7.9 billion by the end of 2026; stronger activity meets increased reflow pressure from high levels of scheduled repayments on existing loans in 2024 and 2025.

Table 3.8 Indicative Regional Portfolio Composition 2022-2026 (€ billion at plan rate €/$1.05)

Volume	2022 Actual	2023 Estimated (up to)	2024 Projected (up to)	2025 Projected (up to)	2026 Projected (up to)
Central Asia	6.9	6.9	7.1	7.4	7.5
Central Europe and Baltics	8.3	9.7	10.0	10.3	10.6
Cyprus and Greece	2.4	2.5	2.5	2.4	2.0
Eastern Europe and Caucasus	8.8	8.6	9.3	10.9	12.7
Russia	0.8	0.7	0.6	0.5	0.5
South-Eastern Europe	10.0	10.2	10.2	10.1	10.2
Southern and Eastern Mediterranean	9.3	9.5	9.9	10.6	11.4
Türkiye	7.3	7.9	7.8	7.8	7.9
Total	**53.7**	**56.1**	**57.5**	**60.1**	**62.8**

Share, per cent	2022 Actual	2023 Estimated	2024 Projected	2025 Projected	2026 Projected
Central Asia	13%	12%	12%	12%	12%
Central Europe and Baltics	15%	17%	17%	17%	17%
Cyprus and Greece	4%	4%	4%	4%	3%
Eastern Europe and Caucasus	16%	15%	16%	18%	20%
Russia	1%	1%	1%	1%	1%
South-Eastern Europe	19%	18%	18%	17%	16%
Southern and Eastern Mediterranean	17%	17%	17%	18%	18%
Türkiye	14%	14%	14%	13%	13%

Table 3.9 2024 Indicative Regional and Sectoral Annual Bank Investment (€ million at plan rate €/$1.05)

	BP2023 Indicative Share, per cent	BP2024 Indicative Share, per cent	BP2023 Indicative Lower End ABI	BP2023 Indicative Upper End ABI	BP2024 Indicative Lower End ABI	BP2024 Indicative Upper End ABI
Central Asia	13%	11-12%	1,350	1,450	1,300	1,500
Central Europe and Baltics	16%	18%	1,650	1,850	2,100	2,300
Greece	4%	3-4%	450	500	300	400
Eastern Europe and Caucasus	17-19%	18-19%	1,800	2,150	2,200	2,400
South-Eastern Europe	17-18%	17%	1,900	2,000	2,000	2,100
Southern and Eastern Mediterranean	18-19%	17%	1,950	2,050	2,000	2,100
Türkiye	13%	14%	1,400	1,500	1,600	1,700
Corporate	28%	26%	2,900	3,200	3,000	3,300
Financial Institutions	39%	44%	4,100	4,500	5,100	5,500
Sustainable infrastructure	33%	30%	3,500	3,800	3,400	3,700

4. Maintaining financial sustainability

4.1 Financial sustainability

Financial sustainability is an integral element of the EBRD's mandate as it aims to deliver transition while ensuring the Bank is sufficiently profitable to sustain capital growth and meet its operational ambitions. In order to achieve this, the Bank follows a three-pronged approach, namely to target profitability, capital adequacy and maintain a strong liquidity position. To ensure that these objectives are quantifiable and measurable, the Bank has a set of tools to assess, monitor and manage returns against risk, as well as ratios to determine if adequate liquidity is in place. These may be summarised as follows:

(i) Profitability

Project specific metric:

- **Investment Profitability Model (IPM)** allows assessment of projected risk-adjusted returns on new debt transactions at the point of origination.

Corporate scorecard metrics:

- **The return on required capital (RoRC)** captures the overall return of the Bank (including debt, equity and Treasury activities).
- **The debt RoRC** (before costs) assesses risk-adjusted financial returns at the level of the debt portfolio.

(ii) Capital management

In line with the capital control parameters in the SCF, the Bank manages its capital adequacy based on the following:

- **the Capital Adequacy Policy (CAP)**, which provides an internal assessment of the Bank's capital adequacy (anchored specifically in the Standard & Poor's methodology). The policy is monitored using a utilisation ratio, defined as required capital divided by available capital. A 90 per cent prudential limit is defined to preserve a buffer above minimum requirements, providing shock absorption capacity
- The Bank also monitors a wider set of capital ratios and related financial metrics – primarily defined by credit rating agencies – to ensure the highest standard and strength of capital adequacy is retained.
- In addition to the risk-based measure, the Bank also adheres to a **statutory capital**[25] metric that ensures that total banking exposure does not exceed the capital base (including callable capital). A prudential limit is set at 92 per cent against this nominal measure.

The Bank's existing capital policies are supplemented by forward-looking macroeconomic stress testing. High-level financial and risk management objectives have been articulated in a risk appetite statement, including a quantification of the risks associated with the Bank's business plan through financial loss tolerance thresholds (FLTTs). Stress test results are measured against these thresholds.

Lastly, a **Framework for Net Income Allocation Proposals** guides the financial assessment underpinning net income allocation decisions, balancing the need to support delivery of the Bank's objectives with commitment to sustained growth in members' equity.

(iii) Liquidity management

The Bank's liquidity policy is a key element in safeguarding financial stability in the medium term and supporting the Bank's "triple-A" rating. The Bank also ensures that at any time it is able to meet each of the minimum liquidity requirements set out in the Bank's **Treasury Asset and Liquidity Policy (TALP).**

[25] At the EBRD's 2023 Annual Meeting, the Board of Governors approved the removal of the statutory capital limitation from the Articles Establishing the Bank (yet to be ratified through parliaments). A new *nominal* capital constraint is now part of the CAP and retains the same form as the previous statutory capital limitation.

Box 4.1 Financial sustainability with rising Ukraine exposure

As the EBRD delivers substantial operational support to Ukraine in difficult business conditions, and expects to increase activity over the course of this SIP and beyond, the risk profile of the Bank is expected to worsen. Moreover, forward-looking stress tests highlight important vulnerabilities to the Bank's capital strength as its exposure to Ukraine rises.

A strong showing of shareholder support has therefore been essential to mitigate these considerable and growing risks to the Bank's balance sheet. At the 2023 Annual Meeting the Board of Governors asked EBRD Directors to consider a general capital increase (GCI). Governors subsequently approved a paid-in capital increase of €4 billion.

The capital planning projections are therefore presented after taking into account this additional capital support (assuming full subscription and timely payment for illustration). Furthermore, all financial projections are made on the basis of the Bank's ambition in Ukraine from the GCI analysis, with annual investment in Ukraine peaking in the longer term at €3 billion. Beginning in 2025, estimates for the Bank's limited and incremental expansion into sub-Saharan Africa are also included.

The nature of the Bank's lending and investments, in particular its equity portfolio, continues to drive volatility in its financial results. When viewed over a longer time horizon, however, the Bank's robust core earning profile is evident, and is expected to remain strong over the planning period (net profit €0.8 to €0.9 billion per annum).

This profitability results in substantial levels of organic capital growth, which is a key element that allows the Bank to continue to expand its balance sheet. But the sharp growth of exposure in Ukraine cannot be supported by retained profits alone. The GCI will provide the EBRD with crucial loss-absorbing capacity to guard against unexpected losses that may materialise in such a highly uncertain environment.

Integral to the Bank's work and analysis on the GCI has been the consideration and implementation of recommendations arising from the G20 review of MDB capital adequacy frameworks (CAFs). Internal EBRD policies already reflect a number of important recommendations from that review, such as the inclusion of callable capital and preferred creditor status within the CAP. The Bank has moved swiftly on other aspects, such as the reassignment of the statutory capital constraint from the Articles Establishing the Bank to a Board-approved policy. Detailed work is also progressing on important topics such as financial innovation where, for example, the Bank intends to pursue the issuance of hybrid capital instruments and explore capital management techniques around project or portfolio level risk transfers.

The Bank continues to take advantage of its well-diversified access to funding markets and manages its extensive liquid assets' buffers against nominal capital constraints. Across the SIP planning period, liquidity ratios are expected to fall modestly from their recent record highs but remain well above historical levels.

Thus, while the EBRD's risk profile will grow as it increases its support to Ukraine in wartime and, eventually, for reconstruction, the Bank has a profitable business model and financial policies in place (and planned) which at this point put it on a strong footing. Nonetheless, stress tests reveal that under a "severe" scenario the Bank's "triple-A" status would be at serious risk. The €4 billion paid-in capital increase alters the balance of risks favourably, allowing the Bank to deliver its planned path of support for Ukraine with greater financial certainty. Furthermore, although the first cash from the capital increase will likely not be received before April 2025, the strong show of shareholder support from the GCI is expected to weigh positively in credit rating agencies' near-term assessments.

4.2 Profitability

4.2.1 2023 financial performance estimate

In the first nine months of 2023, the Bank's financial position showed a gain of €1.7 billion. This was a significant recovery from a net loss of €1.1 billion in 2022. Although profitability was in excess of plan, temporary and one-off accounting adjustments, triggered by an increase in short-term interest rates, contributed substantially to the gains. These factors are expected to partially unwind over the planning period as the underlying loans reach maturity, or will be reversed before maturity should interest rates decline. Factors to note are as follows:

- Effective interest rate (EIR) gains are temporary accounting adjustments driven primarily by increasing spot interest rates in euros and US dollars. Floating rate loans denominated in these currencies now have higher expected future cash flows as a result, increasing the rate at which interest is recognised in the income statement. As the Bank hedges against changes in interest rates on its loans, these gains represent an accounting timing difference rather than an underlying economic gain. By the third quarter of 2023, income from the Banking and Treasury portfolios enhanced

Table 4.1 Profitability

Profitability (€ billion)	2020 Actual	2021 Actual	2022 Actual	2023 Plan	2024 Projected	2025 Projected	2026 Projected
Operating income:							
Debt portfolio	0.76	0.86	0.76	0.84	0.89	0.94	1.01
Effective interest rate adjustments (EIR)	(0.03)	0.08	0.40	0.36	(0.19)	(0.20)	(0.26)
Debt operating income including EIR	**0.73**	**0.94**	**1.16**	**1.20**	**0.70**	**0.74**	**0.75**
Equity portfolio	0.33	1.66	(1.05)	0.46	0.31	0.33	0.34
Treasury activities	0.18	0.16	0.34	0.27	0.16	0.15	0.16
Treasury EIR adjustment*	0.00	0.00	(0.09)	0.08	0.00	0.00	0.00
Operating income by segment	**1.24**	**2.75**	**0.36**	**2.01**	**1.17**	**1.22**	**1.24**
Return on 'free' capital*	0.00	0.00	0.10	0.47	0.59	0.59	0.61
Financial reporting adjustments	(0.00)	0.06	0.38	(0.14)	(0.09)	(0.07)	(0.05)
Total operating income	**1.24**	**2.81**	**0.84**	**2.33**	**1.67**	**1.73**	**1.80**
Provisions for impairment	(0.48)	0.16	(0.87)	(0.30)	(0.21)	(0.24)	(0.26)
Post model adjustment (PMA)	0.00	0.00	(0.55)	0.35	0.10	0.10	0.00
Adminstrative costs	(0.47)	(0.47)	(0.54)	(0.56)	(0.62)	(0.67)	(0.72)
Total net (loss) / profit before NIA	**0.29**	**2.50**	**(1.12)**	**1.83**	**0.93**	**0.92**	**0.83**
Net income allocations	(0.12)	(0.08)	(0.12)	(0.13)	(0.12)	(0.12)	(0.13)
General capital increase**	0.00	0.00	0.00	0.00	2.00	2.00	0.00
Other reserve movements	(0.11)	0.03	0.23	0.52	0.00	0.00	0.00
Net (reduction) / growth in capital base	**0.06**	**2.45**	**(1.01)**	**2.21**	**2.82**	**2.80**	**0.70**
Total members' equity	**17.89**	**20.35**	**19.34**	**21.55**	**24.37**	**27.16**	**27.86**
Return on total members equity (%)	**1.0%**	**14.2%**	**-7.4%**	**12.1%**	**4.3%**	**4.1%**	**3.6%**

* Prior to 2021, the cost of free capital was not separated out from interest income but instead absorbed by Treasury.

** From a financial reporting perspective, the capital increase is recognised after the effective date (31st Dec 2024) and when subscriptions are received. As a modeling assumption subscriptions are assumed at €2 billion in 2024 and €2 billion in 2025. It is expected that rating agencies will recognise capital when payments are received so capital ratios (with the exception of the statutory ratio) reflect the GCI in line with the payment schedule.

by EIR adjustments respectively delivered additional gains of €380 million and €140 million.

- By the third quarter of 2023, the increase to the capital base was also supported by strong gains reported through other comprehensive income (OCI) of €385 million, reflecting a partial reversal of negative effects experienced in 2022. These were temporary valuation mismatches that would not have been realised if the underlying instruments were held to maturity.
- The Bank is benefiting from returns on its own funds (members' equity), which are exceeding expectations due to a higher capital base (driven through increased profitability) than initially modelled in the SIP 2023-25 plan and from currently high interest rates. As a result, **net profit** before net income allocations **for 2023 is estimated at €1.8 billion**. Including other reserves movements of €0.4 billion, the **Bank's capital base is expected to increase by €2.2 billion to €21.6 billion by the end of 2023.**

4.2.2 SIP 2024-26 outlook

Net aggregate organic capital growth from operations of €2.3 billion over the three-year period of SIP 2024-26 is broadly in line with SIP projections in 2022. This unchanged outlook masks some important movements in underlying profit drivers.

Supporting profitability, market interest rates are now expected to remain higher for longer, driving higher returns on own funds to the income statement over the three-year period (€1.0 billion gain relative to SIP 2023-25).

However, this benefit to profitability is offset by:

- the unwinding of the temporary EIR gains (€0.7 billion) based on market interest rate expectations, reversing the significant gains booked in previous years

- higher administrative costs (additional €0.2 billion) as a result of elevated inflationary pressures.

Organic capital growth is supplemented by the additional €4.0 billion paid-in capital increase, with the first of five equal instalments expected in 2025.

The primary financial variables supporting the projections are as follows:

Debt

- The average margin on performing non-sovereign debt is assumed at 2.75 per cent across the planning period, unchanged from SIP 2023-25, despite increasing credit risks in the portfolio. Although average margins on performing stock were trending slightly below this level at 2.7 per cent at the end of August 2023 (2022: 2.72 per cent), the margins on new signings in 2023 were strong to the end of September at 3.1 per cent compared with 2.4 per cent in 2022. Note that since ABI replaces only a portion of operating assets each year, margins on new signings take time to impact average stock margins.
- Including sovereign exposure, which attracts a uniform 1 per cent margin, the weighted average margin on the performing loan portfolio is projected at around 2.4 per cent across the SIP period and is broadly aligned with the returns achieved in the previous two years. In absolute terms, net interest income on the total loan portfolio, including sovereign exposure, is expected to increase over the period as Banking loan assets rise by 18 per cent (SIP 2023-25: 7 per cent) from €34.4 billion in 2023 to €40.8 billion by the end of 2026.
- Stage 3 impairment charges are assumed to be €0.2 billion for 2024, rising over the planning period as exposure to Ukraine increases. A €0.1 billion benefit to the income statement in 2024 and 2025 comes from PMA releases. Net impairment (stage 3) charges for each year are calculated by applying a 45 per cent loss given default (LGD) to new gross non-performing loans (NPLs), which are estimated based on 1.5 per cent of opening stock of debt operating assets in all countries except Ukraine and 6 per cent for Ukraine. The resulting net impairment charge outside Ukraine broadly corresponds to the one year expected credit loss, modelled in accordance with the IFRS 9 framework, subject to downside GDP growth sensitivity (GDP growth reduced by 5 percentage points).

Equity

- Overall equity returns (dividends received, realised and unrealised gains) are conservatively assumed at 6 per cent per annum across the planning period and projections remain in line with historic longer-term average reported returns. With volatile markets and a high interest rate environment in the face of continuing inflation, the cumulative real return is conservatively projected to be negative in the short term. Forecasting equity returns is challenging, particularly during periods of economic turbulence, and average annual nominal returns are set uniformly across the planning period. While annual nominal returns are unchanged from SIP 2023-25, absolute income is planned higher due to the higher opening fair value of equity investments at the start of the planning period following an assumed overall rebound in equity markets during 2023.

Return on own funds (members’ equity)

- The Bank funds its assets through a combination of borrowings (bonds and other short-term securities) and its own funds (members’ equity). When interest rates are zero, there is no material difference between the cost of these funding sources. However, as rates rise, members’ equity becomes an important source of zero cost funding. This effect drives a benefit to the income statement as the Bank’s invested assets typically generate a return via an underlying reference rate (for example, Euribor) plus credit margin.
- The calculated return on own funds is modelled with reference to the market forward yield curve for Euribor.[26] In recent

[26] The Bank’s capital base is denominated in EUR.

months, the yield curve has risen due to more stubborn inflation data and a more hawkish stance on interest rates from central banks. These assumptions yield an additional €1.0 billion in accumulated interest income across the SIP planning period relative to SIP 2023-25.

- The Bank will continue to hedge its capital in order to lock in the most favourable market rates.

Treasury activity

- Treasury assets are projected to remain broadly constant throughout the SIP period at around €30 billion, based on the stable size of borrowing programmes assumed. Careful management of the size of the balance sheet, while making sure appropriate liquidity levels are retained, ensures that no undue pressure is placed on the nominal leverage ratio, notably including the Fitch equity-to-assets ratio.
- Treasury operating income before accounting adjustments, including the impact of higher interest rates, is projected to be €160 million for 2024 and to remain around this level to the end of the planning period. The 2024 target is higher than in 2023 (€140 million) and reflects a larger balance sheet and improving returns. Historically, profits have been supported by significant gains from the Asset & Liability Management (ALM) desk, particularly from local currency activities. However, due to their unpredictable nature, ALM gains are set at prudent levels in this SIP. Returns on short-term assets are increasing with higher market interest rates, supporting a higher overall contribution from Treasury business. Returns from the long-term portfolio are marginally higher than in the past but income from this source is expected to be lower due to the managed reduction of this portfolio.

Effective interest rate adjustment

- Given the sharp rise in interest rates, the combined size of EIR-related gains across both Banking and Treasury portfolios continued to rise in 2023. As a result, the assumed unwinding of these gains has been modelled to show an accumulated net loss of €0.7 billion in the SIP period. The unwinding occurs as the underlying loans reach maturity or will be reversed before maturity, should interest rates decline.

Non-qualifying and ineffective hedges

- This category of the income statement mainly accounts for fair value movements on non-qualifying and ineffective hedges. At the end of September 2023 the Bank had recorded a loss of €0.1 billion, reversing the significant gains recognised in 2022. This was mainly due to rising interest rates, creating a mismatch between derivative liabilities measured at fair value and the assets (loans) held at amortised cost as hedge accounting is not applied. This mismatch causes a temporary gain/loss to the income statement. For planning purposes, the expected unwind of previously recorded gains is modelled using market interest rate expectations during the SIP period.

Banking portfolio FX planning rate

- The planning rate used for converting US dollar denominated Banking assets into euros is €/$1.05 for SIP 2024-26 (unchanged from SIP 2023-25), and is broadly in line with the current spot rate (Q3 2023: €/$1.06).

Other

- Administrative expenditure projections are based on the medium-term budget assumptions set out in Chapter 5.
- Net income allocations (NIA) for 2024-26 are presented for illustrative purposes, with actual allocations subject to annual decisions guided by the **Framework for Net Income Allocation Proposals**, taken as a percentage of accumulated reserves (excluding paid-in capital). For planning purposes, annual allocations at 0.8 per cent of accumulated reserves (excluding paid-in capital) are assumed.[27] This provides a more intuitive trajectory by increasing NIA amounts in line with an increasing capital base and overall balance sheet. Such illustrative amounts should not be seen as pre-empting any decisions on net income

[27] Note that the NIA Framework, 2023, sets the maximum allocation under normal circumstances, but not necessarily the expected level each year.

Table 4.2 Cost to Debt Income Ratio

	2020	2021	2022	2023	2024	2025	2026
€ million	Actual	Actual	Actual	Plan	Projected	Projected	Projected
Total administrative expenses (incl. MYIP)	**466**	**474**	**538**	**556**	**622**	**670**	**718**
Exclude: Exceptional & non-budgeted items to adjust:							
Libor opex	(1)	(3)	(6)	(3)	-	-	-
HQ transition costs	-	(10)	(25)	-	-	-	-
Staff mobility	(11)	-	-	-	-	-	-
Non-budgeted items (e.g. FSP acturial adjustment)	(16)	(31)	(18)	(21)	(18)	(18)	(18)
Sub-total	**(28)**	**(43)**	**(49)**	**(24)**	**(18)**	**(18)**	**(18)**
Adjusted expense base	**438**	**431**	**489**	**532**	**604**	**652**	**700**
Total debt operating income	**837**	**919**	**811**	**908**	**962**	**1,010**	**1,064**
Cost to debt income ratio*	**52.4%**	**46.9%**	**60.3%**	**58.6%**	**62.8%**	**64.5%**	**65.8%**

*Before effective interest rate adjustment and deferral of fee income.Therefore, debt operating income will differ from the Bank's published financial statements.

allocations that are taken by the Board of Governors on the basis of proposals from the Board of Directors.

4.2.3 Cost to debt income ratio

Matching administrative costs against planned debt income allows projections of the cost to debt income metric to be made, as set out in Table 4.2.

The ratio is estimated at 59 per cent for 2023 and is at a similar level to that achieved in 2022 (60 per cent). While costs have increased, there was stronger growth in debt operating income driven largely by the stabilising performance in the portfolio of loans measured at fair value, together with stronger fee generation.

During the planning period, the cost to debt income ratio is expected to increase to 63 per cent in 2024 and by a further three percentage points by the end of 2026. The increase is mainly due to rising MYIP operating expenses and depreciation and the launch of investment activities in sub-Saharan Africa and Iraq from 2025. The ratio remains below the SCF control parameter limit of 70 per cent throughout the SIP period.

Although this ratio is projected to increase during the SIP period, it does not include other income streams such as Treasury operating income and income generated from the Bank's euro-denominated capital, described in detail earlier in this chapter. The Bank's overall profitability includes these factors and is expected to be relatively stable throughout the planning horizon.

While the cost to debt income metric is important for monitoring the efficiency of the debt portfolio (and one of the SCF control parameters), the cost to total income ratio is also helpful to understand the financial dynamics of the Bank at an overall level. This is expected to remain steady at around 40 per cent throughout the SIP period. Another indicator of financial health, commonly reported by commercial organisations, is the ratio of costs to operating assets (Figure 4.1).

Figure 4.1 Projections of the Cost to Income Ratio and Cost to Operational Assets, 2022-2026

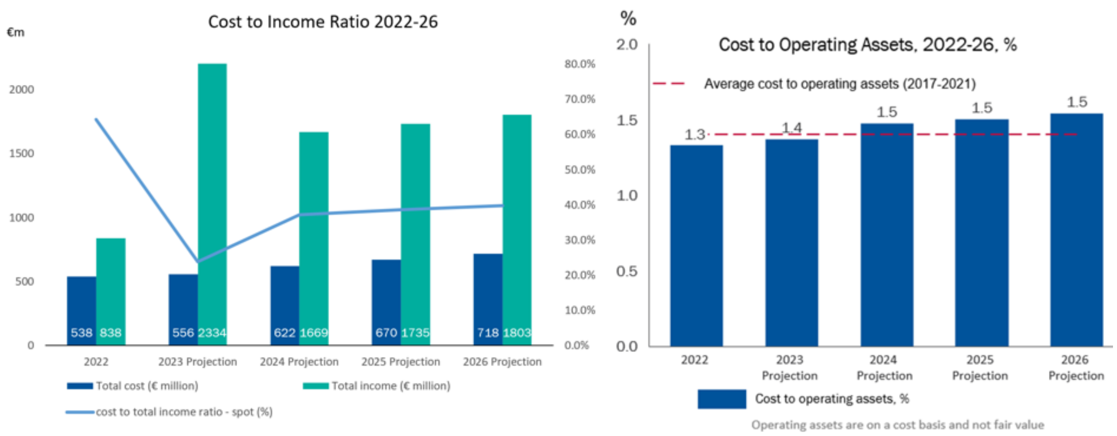


Table 4.3 Internal Capital Policy Projections

Planning rate [1] € billion (other than percentages)	2020 Actual	2021 Actual	2022 Actual	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Annual Bank investment	11.0	10.4	13.1	12.5	12.5	13.6	14.2
Portfolio	48.4	50.0	53.5	56.1	57.5	60.1	62.8
Operating assets at cost	**33.3**	**34.1**	**36.8**	**39.0**	**41.1**	**43.5**	**45.6**
Deduct accumulated stage 3 impairment	(0.8)	(0.7)	(1.3)	(1.4)	(1.4)	(1.4)	(1.5)
Adjusted net operating assets (a)	**32.5**	**33.4**	**35.5**	**37.6**	**39.7**	**42.1**	**44.1**
Total statutory capital [2] (b)	**40.0**	**42.5**	**43.0**	**44.8**	**47.4**	**50.0**	**50.6**
Statutory capital utilisation (a / b)	**81%**	**79%**	**83%**	**84%**	**84%**	**84%**	**87%**
SIP 2023-25				*82%*	*83%*	*84%*	
Capital adequacy:							
Required capital	12.0	13.3	12.6	13.8	14.6	15.1	15.7
Available capital	17.9	20.3	19.3	21.5	22.4	24.0	25.4
Capital utilisation (under CAP)	**67%**	**65%**	**65%**	**64%**	**65%**	**63%**	**62%**
SIP 2023-25				*63%*	*62%*	*60%*	

(1) Actuals at reported rates; projections at planning rate of €/$1.05 for SIP 2024-26.

(2) Statutory capital is reduced by accumulated stage 3 impairments (see 'Review of the Gearing Ratio Interpretation', 2015). The capital increase is recognised after the effective date (31st Dec 2024) and when subscriptions are received (assumed at €2 billion in 2024 and €2 billion in 2025).

This is also reasonably stable and remains close to its recent historic average (2017-21) during the SIP period.

Mindful of the inflationary pressures, the Bank remains committed to managing cost and income dynamics to ensure its financial sustainability and will consider all appropriate measures to control its cost to debt income ratio over the medium term. Control parameters will be maintained at ambitious levels. Continued growth of operating assets, commitment to market-based pricing, and focus on efficiencies and reallocations in the budget planning context all contribute to this objective.

4.3 Capital

4.3.1 Capital policy utilisation projections

The development of the Bank's actual and projected investment levels and capital utilisation is presented in Table 4.3.

As operating assets increase across the planning period, the rise in the statutory capital ratio is mitigated by the GCI from 2024 onwards.[28] In preparing for the next SCF, to be approved in 2025, the Bank may wish to revise either the definition or limit of the nominal capital constraint. On a risk-adjusted basis, the Bank's CAP[29] is expected to decrease by 2026 to 62 per cent as the receipt of paid-in capital payments is reflected in the second half of the planning period.

4.3.2 External capital ratio projections

In addition to the development of the Bank's internal capital adequacy metrics, estimates of rating agency key capital assessment ratios are also projected for each year of the plan. See Table 4.4.

The Bank remains above key thresholds throughout the SIP 2024-26 period. Planned asset growth is supported by profitability and organic capital growth, together with the GCI (first payment from 2025 onwards).

As part of their overall assessments, rating agencies also consider a range of non-financial factors when determining overall ratings, such as risk management practices, policy importance,

[28] The statutory capital ratio considers total *subscribed* capital and not when cash payments are received. As a planning assumption, the GCI is assumed to be fully subscribed by the end of 2025.
[29] Risk-adjusted capital requirements range from an average of 16 per cent of debt exposure to 100 per cent of exposure in the case of equity investments. This contrasts with the nominal capital policy where exposure is considered with a 100 per cent contribution to capital requirements for all banking assets.

Table 4.4 External Capital Ratio Projections

	Boundary Threshold	2021 Actual	2022 Actual	2023* Estimate	2024 Projection	2025 Projection	2026 Projection
NPL ratio	<6%/10%	5%	8%	9%	8%	8%	8%
Moody's asset coverage ratio	< 2.5x	1.93	2.18	2.09	2.11	2.07	2.04
Fitch key capital metrics:							
Useable equity to risk adjusted ratio (FRA)	35%	40.3%	41.4%	42.3%	41.6%	42.3%	42.6%
Equity to assets ratio	25%	27.7%	29.0%	31.6%	31.3%	32.6%	33.3%
S&P's RAC ratio**	> 23%	30%	30%	30%	28%	29%	29%

* End 2023 positions are based on estimates.
** A RAC ratio above 23% represents an 'Extremely Strong' standalone assessment.

business profile and the strength of shareholder support.

4.3.3 The Bank's overall return on capital

A target floor of 3.5 per cent for the three-year average **return on required capital** is set annually and has remained unchanged since it was introduced in the corporate scorecard in 2016. This minimum average return is projected to be comfortably exceeded throughout the SIP period. (Table 4.5.) Aside from the strong recovery in profitability in 2023, higher market interest rates are having a materially positive impact on returns during 2024-26 through earnings on own invested funds.

4.3.4 Financial resilience

The Bank conducts **stress tests** to better understand potential vulnerabilities in its overall portfolio and sub-portfolios. It also assesses the impact of stress scenarios on the Bank's projected capital capacity to understand if the operational plan is within an acceptable risk tolerance and the potential implications of stress events from a capital planning perspective.

Stress scenarios are translated into key drivers of financial impact on the Bank, including debt, equity and Treasury losses, as well as growth in capital requirements. Debt losses are calculated using stressed probabilities of default (PD) which are directly linked to country-level GDP growth projections, whereas equity losses are calculated based on a value at risk approach applied to relevant regional equity indices. Growth in debt capital requirements is driven by PD rating downgrade assumptions, as well as by the projected evolution of sovereign ratings (which act as a ceiling on non-sovereign PD ratings). Both capital requirements and losses also depend on SIP business growth assumptions.

For planning purposes, the Bank's main focus is on the "Severe" (1-in-25) scenario. The Bank aims to be sufficiently capitalised to withstand such a severe macroeconomic shock with resulting capital ratios consistent with retaining a triple-A rating under rating agency methodologies, while relying on shareholder support and other qualitative considerations. Under the Bank's CAP, this equates to a capital utilisation level of 100 per cent after stress.

Based on the Severe stress (post institutional actions)[30] and maintaining planned investment levels outlined in the SIP operational plan, **peak capital utilisation during the planning period is projected at 76 per cent**, marking a 12 per cent increase relative to 64 per cent (estimated) at the end of 2023.

While internal capital policies remain within current limits during the stress test, **some external rating agency metrics are expected to cross important threshold levels.** The Fitch equity to assets ratio would fall to 25 per cent (minimum 25 per cent). The Bank would also significantly exceed an important threshold

Table 4.5 Return on Required Capital

Return on required capital, %	2020 Actual	2021 Actual	2022 Actual	2023 Estimate	2024 Projection	2025 Projection	2026 Projection
Annual return basis (%)	1.5%	20.1%	-6.8%	17.7%	6.7%	6.4%	5.6%
3 year rolling average return (%)	5.9%	11.9%	4.9%	10.3%	5.9%	10.2%	6.2%
Minimum requirement				*3.5%*	*3.5%*	*3.5%*	*3.5%*

30 Reduction in equity share of ABI and reduction in net income allocations.

under the Moody's asset coverage ratio. Other financial metrics monitored by rating agencies, such as the NPL ratio, would also rise well above boundary levels. This will be compensated for by the strong and unequivocal sign of shareholder support for the Bank and its strategy, stemming from the approval of the €4 billion paid-in capital increase in December 2023.

Risk appetite

A framework has been established to transparently quantify the level of financial loss that could be experienced (and absorbed) against each operational plan.[31] Such losses are assessed under stressed conditions of differing severity. The results are then compared to boundaries, or FLTTs, to ensure the risk associated with each plan is understood and within the expected appetite.

Under the FLTT framework, the Bank looks at "Downturn" and "Severe" stress scenarios to assess financial performance at different levels of severity. Considering more than one scenario widens the understanding of the Bank's exposure to more predictable downturn conditions but also against more severely correlated tail-risk shocks.

Results from these stress scenarios applied to the SIP 2024-26 plan are presented in Table 4.6 together with the FLTT. The one-year impact on net earnings under "Downturn" scenarios is within the defined FLTT but not for the "Severe" scenario.

Table 4.6 Stress Test Results vs. Financial Loss Tolerance Thresholds

Scenario	Net Earnings 1 year (€m)	FLTT (€m)
Downturn	-951	-1,000
Severe (post-Institutional Actions)	-5,115	-4,000

The Bank thus remains in compliance with internal capital policies and loss tolerance thresholds set within the Risk Appetite Statement for the "Downturn" scenario but *not* for the "Severe scenario". This is the highest level of risk that the Bank has accepted in its business plan since the introduction of formal stress testing of the SIP.

The stress testing analysis highlights the Bank's vulnerability to financial metrics considered by rating agencies. In adopting the operational plan set out in this document, the Bank accepts this elevated risk of rating downgrade in the current turbulent conditions in its countries of operations.

On these projections, without the supporting effects of the capital increase and in the event of a "Severe" scenario it would be highly unlikely that the Bank would retain triple-A accreditation across all three rating agencies. Clearly, and as highlighted in Box 4.1, a €4 billion paid-in capital increase alters this balance of risks favourably. Although the first cash from the capital increase will not be received before April 2025, the strong show of shareholder support from a Governors' vote in favour of a GCI is expected to weigh positively in credit rating agencies' near-term assessments, even if a severe stress was to materialise over this period.

As in any modelling exercise, the stress results represent only one outcome out of a multitude of possible adverse future paths. While any set of projected financial outcomes is subject to model risk, the risk of underestimation of losses is considered low due to the many conservative modelling assumptions applied.

4.3.5 EBRD implementation of the G20 review of MDB capital adequacy frameworks

In October 2022, the G20 commissioned an independent review of MDBs' capital adequacy frameworks, which made a wide range of recommendations designed to increase the financing capacity of MDBs individually and collectively. In reviewing these recommendations, the Bank recognises that each MDB has its own approach to managing its capital and that not all recommendations are universally applicable. The Bank is fully committed to implementing those recommendations which are relevant to it and has put in place an action plan for this purpose.

In some areas, the EBRD anticipated the recommendations of the CAF review. Most significantly, the Bank has included the benefit derived from its substantial holding of callable capital and the preferred creditor treatment of its lending within its risk-adjusted capital adequacy policy. Taken together, this provides an uplift to

[31] See Risk Appetite Statement, 2023, and 2023 Review of Financial Loss Tolerance Thresholds.

the risk-bearing capacity of the Bank's capital, providing a theoretical[32] increase to its lending capacity of up to €6.5 billion annually. If credit rating agencies follow a further CAF review recommendation to increase the credit given for these two factors, the Bank would be able to benefit more.

To support this objective, the Bank has responded positively to the call by a number of shareholders to collaborate in analysing practical steps to be taken in the enhancement of the value of the support provided by shareholders through callable capital. In addition, as endorsed by the CAF review, the EBRD has the most active programme of using unfunded risk participations with private sector co-financiers.

Only a paid-in capital increase can address the financial pressures facing the Bank at sufficient size and scale to support shareholders' long-term goals with respect to investment in Ukraine. Nonetheless, the Bank is implementing a number of CAF review recommendations which will be valuable in increasing the Bank's flexibility and capacity in certain circumstances in the future. The amendment of Article 12.1 of the Articles Establishing the Bank (AEB) approved by the Board of Governors at the 2023 Annual Meeting to relocate the EBRD's statutory capital policy from the AEB and make it a Board of Directors' policy will, once accepted by members, provide greater scope to optimise the use of the Bank's available risk-bearing capacity at all times.

Looking forward, the Bank is taking practical steps to be in a position to issue a hybrid capital instrument. The Bank's approach will be informed by developments in other MDBs, especially the World Bank. Any first issuance is likely to provide relatively modest levels of lending headroom and would only take place under favourable market conditions. The Bank plans to continue with project-level risk transfers and is exploring the possibility of portfolio-level transactions such as a synthetic securitisation,

Beyond the CAF review, the Bank has shown over the past year its commitment to dynamic capital management through the consolidation of the Shareholder Special Fund (SSF) into the EBRD's accounts and by deleveraging its Treasury's balance sheet. This relieved pressure on the Bank's nominal metrics and increased annual capacity against that measure by just over €1 billion. Qualitatively, the Bank's willingness to accept the very high risk of lending in Ukraine throughout the war shows a strong commitment to the call in the CAF review for MDBs to assess their own risk appetite independently of external considerations.

4.4 Liquidity and 2024 borrowing programme

The assessment of the Bank's liquidity requirements and resulting size of the borrowing programme is performed annually in the medium-term context provided by each SIP. In determining liquidity requirements for the following year, the Bank sets an operating target for liquidity above minimum policy requirements.

Based on planned activity levels in the business plan for 2023, a **Borrowing Programme Authority of up to €13.5 billion (expected use, €12.5 billion) net new issuance is set for 2024.**

The €13.5 billion borrowing programme for 2024 represents a €3.5 billion increase on the €10 billion borrowing programme in 2023. Additional borrowing is designed to address increased business needs and higher debt servicing requirements in 2024, especially in response to Ukraine, as well as to ensure that a liquidity cushion is consistently maintained above key policy ratios.

The borrowing authority for 2023 was €10 billion with an expected utilisation of €8 billion. The 2024 borrowing recommendation is driven by the expectation of an additional €1 billion over the original 2023 expected use level of €8 billion, taking the total expected utilisation to a revised €9 billion.

This additional borrowing increases the size of the Bank's balance sheet. However, there is an adequate capital buffer on the nominal leverage ratios, including the Fitch equity-to-assets ratio, over the short to medium term to absorb this expansion. The Fitch equity-to-assets ratio is estimated at 32 per cent by the end of 2023 (2022: 29 per cent), well above the minimum threshold of 25 per cent.

[32] While callable capital and PCT are considered within the risk-based CAP, the Bank is also subject to internal and external nominal capital constraints, which represent a binding constraint under certain growth scenarios.

The Bank had issued €8 billion of new debt by the end of September 2023 and is expected to raise an additional €1 billion by the end of the year. Treasury liquid assets at the end of 2024 are expected to be broadly unchanged at €30 billion from the end-2023 position.

With a **borrowing level of €12.5 billion anticipated for 2024**:

- liquidity ratios maintain a comfortable buffer above minimum levels required by the Bank's internal policies; and the Bank's liquidity position is assessed to be in the strongest category under external rating agency methodologies
- there is flexibility in the implementation of the borrowing programme so that the Bank is not required to borrow funds in unfavourable market conditions.

Projected liquidity levels at the end of 2024 are designed to ensure the Bank achieves the strongest assessment rating on liquidity from rating agencies.

Table 4.7 presents the EBRD one-year stressed liquidity ratio over the medium term which broadly follows the approach considered by Standard & Poor's. At the end of 2024, it is estimated to be 125 per cent against a required ratio of 100 per cent (end-2023 estimate, 127 per cent). This ratio level ensures that the Bank's liquid funds are sufficient to meet its cash requirements against a one-year debt service plus 50 per cent of undrawn commitments.

Coverage is projected to increase during the SIP period, reflecting a combination of the illustrative borrowing levels of €11.5 billion and the paid-in capital instalments of €0.8 billion, in each year for 2025 and 2026. The assumed borrowing levels beyond 2024 are reviewed annually in the context of each SIP along with the operating target the Bank sets for liquidity ratios.

In line with the second requirement under the Bank's TALP, it is projected that at the end of 2024 the Bank will have 129 per cent coverage of the next two years' net cash requirements (to the end of 2026), comfortably above the policy minimum of 75 per cent. (Table 4.8).

Table 4.7 Projected One-Year Stressed Liquidity Coverage Ratio

€ billion	End 2021 Actual	End 2022 Actual	End 2023 Estimate	End 2024 Projected	End 2025 Projected	End 2026 Projected
Borrowing level (expected utilisation)			9	12.5	11.5	11.5
Cash in						
Gross Treasury assets [1]	34.0	30.0	29.5	30.5	30.3	31.2
Less: associated liquidity haircuts	(6.3)	(4.6)	(4.8)	(5.1)	(5.0)	(5.4)
General capital increase instalments	0.0	0.0	0.0	0.0	0.8	1.6
Adjusted Treasury assets	**27.7**	**25.5**	**24.7**	**25.3**	**25.1**	**25.6**
Discounted maturing Banking loans and gross interest income	4.5	5.7	7.1	7.1	7.4	8.3
Total discounted Treasury assets and maturing loans	**32.2**	**31.2**	**31.8**	**32.4**	**32.5**	**33.9**
Cash out						
Banking undrawn commitments (50%)	7.1	7.2	7.3	7.0	7.1	7.3
Guarantees (100%)	1.7	2.3	2.5	2.5	2.5	2.5
Total debt redemptions (short & long-term)	10.9	10.3	11.7	12.7	11.8	11.3
Other obligations [2]	0.9	1.8	3.5	3.7	3.8	4.0
Total obligations	**20.6**	**21.7**	**25.1**	**25.9**	**25.2**	**25.0**
1 year EBRD stressed ratio	**156%**	**144%**	**127%**	**125%**	**129%**	**136%**
Liquidity buffer to 100% minimum requirement (€ bn)	*11.6*	*9.5*	*6.7*	*6.5*	*7.3*	*9.0*

[1] From year 2023 onwards, includes the consolidation of the Shareholder Special Fund.
[2] Includes cost of borrowings, non-borrowed funds, administrative expenses and deferred net income allocations.

Table 4.8 Projected Two Years Net Cash Requirements Ratio

	End 2023 Estimate	End 2024 Projected
Gross Treasury Liquidity assets	29.5	30.4
Less short term borrowings [(1)]	(2.0)	(2.1)
Net Treasury Liquid assets	**27.4**	**28.3**
Net outflows	**Years 2024/2025**	**Years 2025/2026**
Net operational disbursements	(5.1)	(4.9)
Net profit (incl. Net income allocations)	2.1	2.2
General capital increase instalments	0.8	1.6
Debt redemptions [(2)]	(20.6)	(20.8)
Two years net cash requirements [(3)]	**(22.8)**	**(21.9)**
Net cash requirements ratio	**120%**	**129%**

[(1)] Includes non-borrowed funds.
[(2)] Represents total debt (incl. short term debt) maturing in the next 24 months. Assumes no new issuance in years 2025 and 2026.
[(3)] Estimate for 2023 based on SIP 2024-26 projections.

Liquidity performance under a one-in-100 stressed scenario is the third requirement under the TALP. In this scenario, under the 2023 Bank-wide stress test, the EBRD has **sufficient liquidity resources to meet net cash requirements for a minimum of 12 months** as set out in the TALP.

Both the EBRD one-year stressed ratio and the two-year net cash requirements (outlined in tables 4.7 and 4.8) includes the benefit of paid-in capital under the GCI, which is expected to occur in five annual instalments starting in April 2025.

5. Resourcing the plan and budget proposal

Introduction

A backdrop of persistently high inflation at a time when there is significant pressure on resources to support Ukraine and deliver the Bank's SCF goals presents a difficult context for budgetary decisions. Price rises for many items are unavoidable and other cost increases are hard to contain. The need for salaries to compensate for the rising cost of living adds to the pressure on costs. These pressures carry significant consequences for the Bank's expenses and resource plans. This chapter notes the challenges and sets out the SIP 2024-26 budget proposal, while details on compensation and benefits are presented in a companion paper.[33]

A high-level overview of the net resource needs to meet the Bank's operational goals for 2024 and the drivers behind the request are discussed first. After a short commentary on staff and workforce planning, the core budget proposal for 2024 is set out in full, including a medium-term view based on illustrative assumptions of prudent growth in costs. The Multi-Year Investment Plan (MYIP), which is an exceptional item beyond the core administrative budget, is also presented including the costs associated with Phase 4, which is to be endorsed in this SIP.

5.1 Resourcing the plan

The Bank's business priorities for 2024 are outlined in the operational plan in Chapter 3 and the economic context in Chapter 1. These chapters describe the many challenges the EBRD faces and how it is steering a path to deliver its objectives. This includes how the Bank plans to provide further support to its clients in Ukraine and other countries affected by the war and continue delivering on SCF priorities.

To meet these objectives, the Bank must be adequately resourced. Business volumes are projected to remain close to record levels but, despite rising costs from high inflation, the increase proposed in the EBRD's core budget is modest and only slightly above inflation.

This has been achieved by a concerted effort across the Bank to reallocate resources and extract efficiency savings. A real reduction in HQ salaries is also a moderating influence. Net new resources amounting to 1.0 per cent above 2023s core administrative expense budget, or £4.4 million, are requested. Of this amount, £2.4 million, or more than one-half, is allocated to the effort on the war on Ukraine,[34] with other resources used for SCF themes and delivery improvements.

5.1.1 The impact of inflation

Inflation remains high among G7 countries compared with the experience of the last two decades and is falling back only slowly, despite sharp increases in interest rates. After the initial shocks to energy and food prices, cost and price increases have become more widespread and have fed into wage claims.

The effects have been particularly noticeable in the United Kingdom, where price increases have outstripped those in other G7 countries. IMF figures show that UK consumer price (CPI) inflation averaged 9.1 per cent in 2022 – peaking at 11.1 per cent in October– against an average of 7.2 per cent for the other G7 countries. UK inflation remained above 10 per cent until April 2023. Although the IMF forecast a lower profile in 2023, at 7.7 per cent UK inflation is expected to be more than 3 percentage points higher than inflation in the rest of the G7 (average 4.5 per cent).[35] UK inflation is only expected to reach other G7 levels by 2025. (See Figure 5.1.)

The rise in the cost of living is also fuelling increases in pay as employers respond to wage demands and try to keep skilled workers in the face of labour shortages. Annual growth in regular pay (excluding bonuses) in the UK in the three months to August was 7.8 per cent and above the August CPI inflation rate of 6.7 per cent. (August UK CPI inflation is used each year for budget comparison purposes.) Inflation is also an issue in EBRD resident offices where it is

[33] 2024 Staff Compensation and Benefits Proposals, 2023.
[34] It may be noted that many Ukraine-related costs are being absorbed in 2023 through in-year savings from within the existing budget, notably the reopening of an office in Kyiv and for security, travel and insurance.
[35] See https://www.imf.org/en/Countries/GBR.

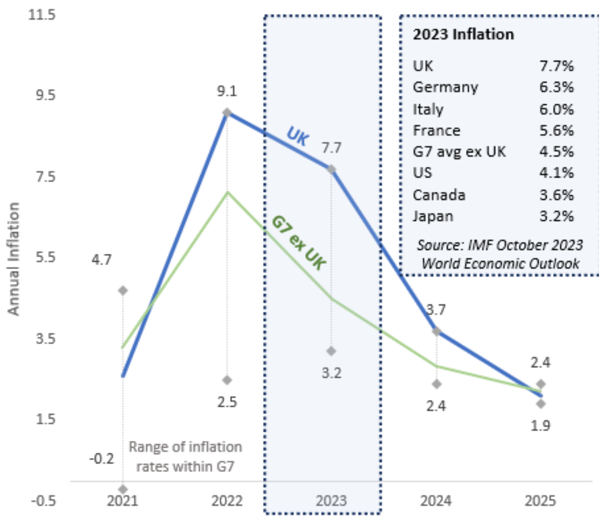
running a little above the UK rate. Bank-wide inflation in August was measured at 6.8 per cent.

These high rates of inflation complicate the management of overall costs. The EBRD faces several unavoidable cost increases from inflation, such as building and other service charges, business rates, software and market data licences, medical insurance, security contracts, depreciation and audit fees. The changes amount to almost £11 million extra costs in 2024, although favourable exchange rate movements have helped reduce the rise in total non-discretionary costs to £9.5 million, an increase of 2.1 per cent in core administrative expenses.

Pay has an even bigger impact on the budget as it forms the largest portion of the administrative cost base. Here, as explained in full in the companion Compensation and Benefits paper, the need to keep pace with market dynamics, and broadly in line with inflation, results in an increased core administrative expenses by 3.8 per cent.

The Bank recognises that the room for manoeuvre on funding new resources is heavily constrained in this environment and has accordingly planned the budget carefully.

Figure 5.1 Consumer price inflation in the UK and other G7 countries, 2021-25, annual average



5.1.2 Driving efficiencies forward

Sound financial management ensures that existing resources are first reallocated to best use and streamlined, before requests are made for new resources. The Bank continues its mission to instil a management culture, which embeds resource efficiency and effectiveness as part of everyday thinking and to ensure effective resource management. This has created the capacity to redeploy substantial resources across activities and within departments. It has helped the Bank manage unexpected developments and cost pressures, and to deliver new priorities without losing sight of the need to improve existing activities, skills and processes. The Transformation Office continues to lead on driving efficiencies throughout the Bank.

The EBRD faces multiple pressures on its resources – particularly as a result of the ongoing war on Ukraine – leading management to consider every aspect of the Bank's business as it seeks to optimise output and redeploy resources where they are most needed. Common tools have involved top-down reallocations and adjustments to budgets, stopping some low value work and reprioritising activities, making use of staff turnover and vacancies, and creating structural opportunities to redesign and automate processes.

Within this wider context, driving efficiency forward was a clear goal when assessing budgetary needs for 2024. There was a strong message that during this year, incremental needs should be met through internal reallocations of existing budgets, with new asks only accepted by fully justified exception. A rigorous internal prioritisation of requirements was thus conducted department by department to ensure that any SIP requests were both realistic and necessary. Finance worked with departmental managers to reprioritise and reduce asks. Box 5.1 shows some of the details and outcomes from this process.

The Bank's Client Services Group (CSG), for example, reallocated 63 positions internally to meet incremental needs for SCF priorities and operational demands while deferring a further 22 positions (and the associated planned activities) given the strict budget constraints. Smaller departments with less budget flexibility have also been creative in finding ways to reallocate resources. Nonetheless, given rising operational pressures and the "snowballing" effect of accumulated resource shortages, there are limits to this before strategic targets risk being compromised.

Box 5.1 Efficiencies by enabler and business area

The EBRD has maintained its line of focus in delivering efficiencies. These can be grouped out together.

By enabler:

- **Review of organisational structures**, leading to adjustment of the balance in staff resources.
- **Reprioritising activities** (workload reallocation).
- Achieving **commercial savings** through provider or scope change.
- Exploring opportunities related to natural **staff turnover.**
- Achieving **additional efficiencies** to offset inflation effects on geographical mobility short-term assignments.
- Reviewing processes with the aim of increasing **efficiency**, **automating** delivery or **stopping** an activity.

MYIP enabled £1.5 million of the overall £7.8 million efficiencies.

Efficiencies by Enabler and by Business Area (£ million)

		Headcount*	Staff Cost	Non-Staff Costs	Total
By:					
Enabler	Workload Reallocation	(69)	(4.4)	-	**(4.4)**
	Commercial Savings	-	-	(1.2)	**(1.2)**
	Spans & Layers	(4)	(1.1)	-	**(1.1)**
	Additional Efficiency Measures	-	(0.5)	(0.5)	**(1.0)**
	Stopping an activity	-	-	(0.0)	**(0.0)**
	Total by Enabler	**(73)**	**(6.0)**	**(1.8)**	**(7.8)**
	Banking Department	(63)	(4.0)	-	**(4.0)**
Area	VP, Chief Transformation Office	(2)	(0.2)	(0.9)	**(1.1)**
	Additional Efficiency Measures	-	(0.5)	(0.5)	**(1.0)**
	Office of the General Counsel	(2)	(0.8)	-	**(0.8)**
	VP, Risk and Compliance Group	(2)	(0.3)	(0.1)	**(0.4)**
	Finance	-	-	(0.3)	**(0.3)**
	HR and Organisational Development	(3)	(0.2)	-	**(0.2)**
	Corporate strategy	(1)	(0.1)	-	**(0.1)**
	President's Office	-	-	(0.0)	**(0.0)**
	Total by Area	**(73)**	**(6.0)**	**(1.8)**	**(7.8)**

*Number Note: Figures in parentheses represent efficiencies and cost savings.

The initial gross value of requests was well above what was viewed as acceptable. Even after refinement a gross need of £12.3 million remained, made up of 106 headcount positions at a cost of £7.6 million, non-staff costs of £4.0 million and geographic assignments of £0.8 million. An exhaustive review process resulted in **the majority of the identified needs, or 83 headcount positions at a total cost of £6.3 million, being met through staff efficiencies and reallocations. In addition, £1.5 million of non-staff cost needs were resolved through budget reallocations.**

5.2 Net resource needs

In SIP 2024-26 the **net resource request amounts to £4.4 million or a 1.0 per cent increase in the core administrative expense budget.**

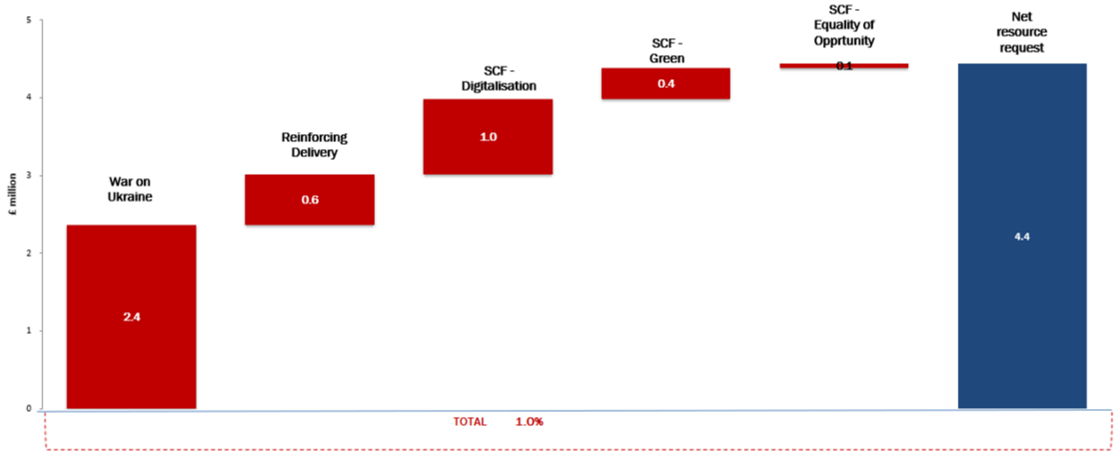
The core administrative expense budget increases by 6.9 per cent. This is slightly higher than UK CPI inflation of 6.7 per cent and Bank-wide aggregate inflation of 6.8 per cent (both August 2023 figures).

The focus of the £4.4 million net resource requests is shown in Figure 5.2 below, with an overall request of £12.3 million for activities related to the war on Ukraine, SCF priorities and reinforcing delivery offset by £7.8 million of resource efficiencies and reallocations. The new request is a culmination of a highly disciplined approach to budget demands and imposes tight constraints on the resources needed to deliver ambitions on the SCF and Ukraine in a complex and challenging operating environment.

5.2.1 War on Ukraine

Since the war on Ukraine began the EBRD has committed substantial resources to activities in that country and others affected by the conflict. As outlined in Chapter 3, the Resilience and Livelihoods programme and many other

Figure 5.2 2024 Net Resource Requests



operations are playing an important part in the international effort to support Ukraine at a crucial time. The high level of activity will continue in 2024 and beyond, accelerating in due course following the capital increase.

By adjusting the allocation of resources, the Bank has so far largely been able to accommodate the increase in activity in Ukraine and countries affected by the war. However, high security and insurance costs linked to the reopening of the Kyiv office and for travel to, from and around Ukraine are putting significant pressure on costs. Some £0.3 million of the resident office (RO) costs are being absorbed in the 2023 budget but an expected increase in the frequency of visits suggests a further £1.3 million will be needed to meet additional travel, security and insurance costs in 2024. Careful attention is being paid to integrity issues, including legal work on managing sanctions requirements, which adds to the cost pressures. To cope with the increase in these business activities a **net request of £2.4 million** is proposed, made up of £0.7 million (10 FTEs) and £1.7 million of non-staff costs.

5.2.2 SCF priorities

While the war on Ukraine has become a central focus, the Bank continues to pursue core SCF priorities, leveraging resources approved in the first three years of the SCF.

Resources for SCF priorities on the green economy, equality of opportunity and digitalisation have increased in successive SIPs to support more activity in these areas. Demands continue to grow and SIP 2024-26 raises resources going to **SCF priorities by £1.9 million**. **Reallocations of £0.5 million** have been identified while maintaining continued investment capabilities, resulting in a **net request of £1.4 million.**

5.2.3 Reinforcing delivery capability

Amid a growing volume of complex activities, there is a continuing need to strengthen the resilience of the Bank's delivery model. In particular, the cumulative allocation of resources which have supported the expansion of front-line banking activities and the growing complexity of the EBRD's business require parallel investments in data management and back office and other support. The majority of needs here have been met through efficiencies and reallocations.

There are several factors that make this necessary. For example, rising numbers of portfolio transactions to manage, improvements needed in data management, an increasing proportion of donor-supported projects with complex structuring and reporting requirements, maintaining alignment with the latest policy standards, for example, on environmental and climate-related issues (Paris alignment, TCFD), compliance with sanction regimes, AML/CFT and the cross-cutting requirements of EU guarantee programmes. Meeting these requirements puts pressure on the services that enable front-line banking to deliver successful operations, with failure to invest increasing the risks to their smooth-running.

Under the comprehensive category of **Reinforcing Delivery there is a net request of £0.6 million. Most of the £7.2 million gross staff and non-staff budgetary needs here, however, have been satisfied through reallocations of £6.6 million.** Eighty-two FTEs out of a total 90 FTEs sought, or

91 per cent, have been resolved through internal efficiencies and reallocations, leaving a net incremental request of eight FTEs. Net new staffing needs have been identified in Finance to analyse and enhance financial performance management, as well as integrity checks and screening linked to volume growth (two FTEs); in the Office of the Chief Compliance Officer (OCCO) to support case intake and internal investigations (five FTEs); and for the Independent Project Accountability Mechanism to support caseload volume (one FTE). Net incremental non-staff costs of £0.5 million have been identified to support OCCO, Internal Audit, Evaluation and for media monitoring and analytics.

Ensuring a robust operating platform is in place, which helps keep disruptions and delays to a minimum, is a critical enabler for front-line delivery, especially with the Bank operating at record business volumes. With a strong focus on high standards it is also important for maintaining the EBRD's reputation as a leading IFI. Reinforcing delivery capability therefore forms an important part of the effort in this SIP to support the Bank's operational priorities and standing.

5.3 Staff and workforce planning

5.3.1 The Bank's workforce

The Bank's workforce increased by a headcount of 158 (net, including externally funded positions) during the year to the end of September 2023, an increase of 5.4 per cent on a year earlier. The staff mix among sub-groups remained broadly unchanged, with Banking accounting for 52 per cent of the total workforce. (See Table 5.1.)

5.3.2 Ukraine

The war on Ukraine led the Bank to make a number of policy decisions to ensure that staff affected by the crisis were safe and could continue to meet business requirements. Although the majority of the assistance was deployed in 2022, financial support providing a subsistence amount continued to be delivered to 46 employees in 2023. The Bank put in place policies to ensure affected staff were able to plan for the longer term and the package of help agreed earlier has been extended by 12 months.

5.3.3 Hybrid working

The Bank initially moved to a hybrid way of working after the Covid-19 pandemic based on staff attending the office for two days per week or eight days per month. After a review in the first half of 2022, a revised approach was adopted based on a strong belief that working together in person is critical for business effectiveness and should be underpinned by principles of trust, flexibility and connectedness. The new framework, whereby staff spend at least half their time on average working in an office or in-person with clients and partners and are assisted with supporting tools, continued in 2023. The overall arrangements are regarded by staff as a positive step forward in improving work-life balance.

5.3.4 Wellbeing

A material number of staff (some 15 per cent) continue to be directly or indirectly impacted by

Table 5.1 The Bank's Workforce in 2023, end-September

	2021 Q3		2022 Q3		2023 Q3	
	Headcount	Per cent	Headcount	Per cent	Headcount	Per cent
Headquarters	1895	65%	1913	65%	2041	66%
Resident office	1018	35%	1016	35%	1046	34%
Banking	1561	54%	1563	53%	1620	52%
Non-Banking	1352	46%	1366	47%	1467	48%
Regular	2198	75%	2219	76%	2336	76%
Fixed-Term contract	560	19%	554	19%	612	20%
Short-Term contract	155	5%	156	5%	139	5%
Non-Overtime Eligible (male)	1193	41%	1188	41%	1285	42%
Non-Overtime Eligible (female)	1238	42%	1296	44%	1365	44%
Overtime Eligible (male)	87	3%	86	3%	82	3%
Overtime Eligible (female)	395	14%	359	12%	355	11%

the war on Ukraine. However, the overall number of sick days in the year to date has fallen by 12 per cent compared with the previous year. Stress-related absences remained largely static within the total at around one-third, although the total number of staff absent for this reason remains low.

A wellbeing programme and mental health first aider training offers ongoing support to the Bank's workforce. To help staff further, the mental health element of the medical insurance plan was increased in 2023.

5.4 Budget proposal

5.4.1 The medium-term budget perspective to 2026

This SIP covers three years to 2026 and has a multi-year perspective. It builds on investments approved in the first three years of the SCF and reflects the effects of inflation and needs driven by the war on Ukraine, as well as resources to support the delivery of SCF goals and other business requirements. Longer-term resourcing plans have been developed for the MYIP, discussed in section 5.6, and for SCF themes over the period of this SIP, illustrated in Table A.5 in Annex 3.

To deliver the SCF and continue operating in a high inflation environment the Bank will inevitably require budget increases in each year of the SIP. These are shown in Table 5.2, with increases beyond 2024 based on an illustrative conservative 5 per cent nominal growth in the core expenses in 2025 and 2026. In addition to these costs, current and future SIPs are affected by extraordinary items, in this case the MYIP as no further budget requirements are expected for the Libor transition beyond 2023. This illustration is provided purely to assess financial sustainability under prudent assumptions of cost growth and does not pre-empt future budget proposals. Budgets beyond 2024 will be approved by the Board of Directors in subsequent SIPs.

The Bank remains committed to an efficient use of resources and strict budgetary control. The projections here do not prejudge development of

Table 5.2 Projected Total Administrative Expense Budget 2024-26 (£ million)

	2023 Budget	2024 Budget	2025 Projection	2026 Projection
Core Administrative Expenses, GBP	**448.2**	**479.3**	**515.0**	**544.8**
o/w Staff Costs	319.2	339.2	357.7	375.9
Non-Staff Costs	129.0	140.1	157.2	168.9
Extraordinary Budget Items GBP	**34.4**	**36.6**	**42.2**	**53.5**
LIBOR Transition	2.7	-	-	-
MYIP (opex and depreciation) - Phase 1	22.9	22.2	23.4	24.5
MYIP (opex and depreciation) - Phase 2	8.5	11	12.8	15.6
MYIP (opex and depreciation) - Phase 3	0.2	2.1	3.7	10.3
MYIP (opex and depreciation) - Phase 4	-	1.3	2.3	3.1
Total Administrative Expense Budget, GBP	**482.6**	**515.9**	**557.2**	**598.2**
GBP/EUR rate	1.14	1.17	1.17	1.17
Core Administrative Expenses, EUR	**510.9**	**560.8**	**602.5**	**637.4**
o/w Staff Costs	363.9	396.9	418.6	439.8
Non-Staff Costs	147.0	163.9	184.0	197.6
Extraordinary Budget Items EUR	**39.2**	**42.8**	**49.4**	**62.6**
LIBOR Transition	3.1	-	-	-
MYIP (opex and depreciation) - Phase 1	26.1	25.9	27.4	28.6
MYIP (opex and depreciation) - Phase 2	9.7	12.9	15.0	18.3
MYIP (opex and depreciation) - Phase 3	0.3	2.5	4.3	12.0
MYIP (opex and depreciation) - Phase 4	-	1.5	2.7	3.7
Total Administrative Expense Budget, EUR	**550.2**	**603.6**	**651.9**	**699.9**

Note: The total expense budget in 2024 does not include non-budgeted items related to pension amortisation, estimated at €18 million. These are included in Table 4.2 for completeness.

Table 5.3 Core Administrative Expense Budget for 2024 (£ million)

Administrative Expenses	2023 Budget	2024 Budget	2024 vs 2023 £ million	Per cent
Operating Expenses	406.4	436.0	29.6	7.3%
Depreciation	41.8	43.3	1.5	3.7%
Core Admin Expenses	**448.2**	**479.3**	**31.1**	**6.9%**

the budget over the medium term. Among other items, future budgets for core expenses will need to take into account:

- future implementation of SCF 2021-25 priorities
- resources to support the Bank's operational delivery and future regional expansion
- adjustments for reward to allow the Bank to remain competitive and to address inflationary pressures.

5.4.2 2024 total administrative expense budget and extraordinary items

The Board is asked to approve the 2024 total administrative expense budget consisting of a core budget and one extraordinary strategic item amounting to £515.9 million (€603.6 million). This comprises:

1. **a core administrative expense budget of £479.3 million**
2. **MYIP implementation impact of £36.6 million.**

5.4.3 Core administrative expense budget

A total of £479.3 million is proposed for the core administrative expense budget in 2024, a 6.9 per cent nominal increase from the 2023 budget of £448.2 million (see Table 5.3).

The proposed 6.9 per cent nominal growth in the core administrative expenses budget is made up of the following increases and reductions:

- 2.1 per cent related to price and volume increases, FX impacts (mostly linked to US dollar weakening), and the consequences of a range of items such as service costs and benefits linked to medical cost inflation.
- 3.8 per cent to fund the 2024 compensation proposal, consisting of market movement and Board and VP increases.
- 1.0 per cent (net) for priority needs for business lead requests linked to SCF priorities and other business needs, compensated by identified efficiencies and reallocations as well as the effects of inflation on the costs of geographical mobility.

Figure 5.3 Total Administrative Expense Budget for 2024

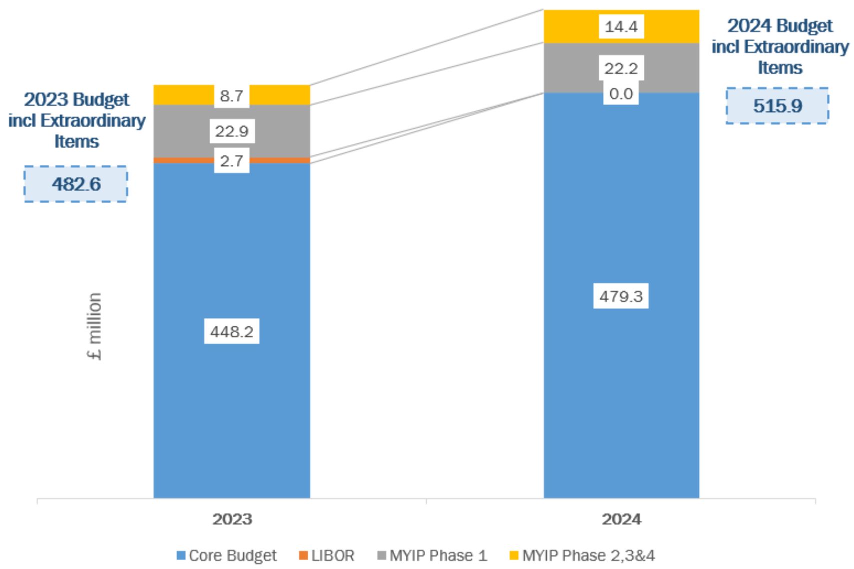
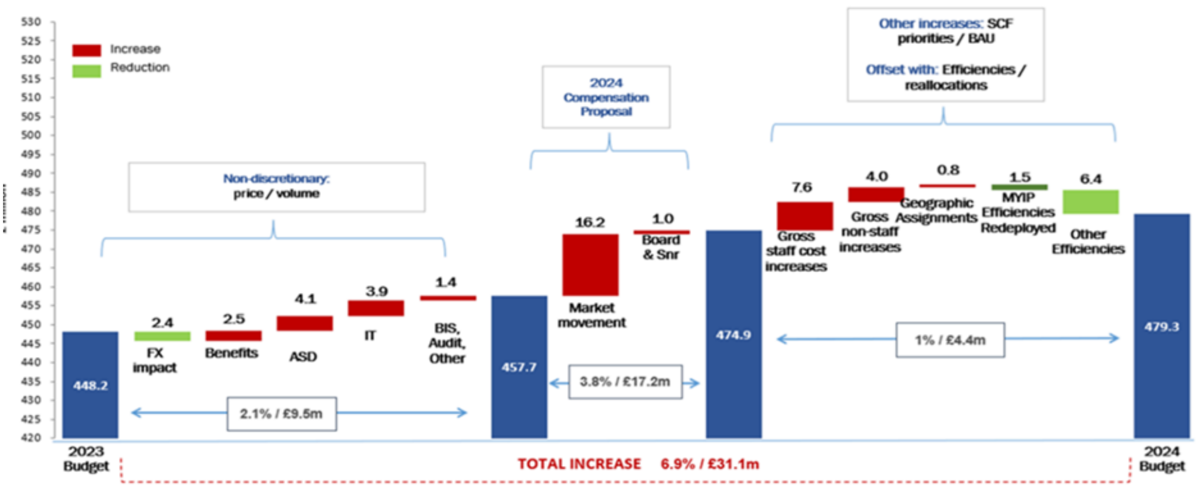


Figure 5.4 Core Administrative Expense Budget for 2024



5.4.3.1 Core budget – key movements and reallocations

Movements in the core administrative expense budget are driven by a number of factors which are set out in detail below and in Table 5.4:

- **£9.5 million additional budget for non-discretionary items** (factor A), including**:**
  - **price and volume changes**. This includes £11.9 million reflecting inflationary/contractual increases in real estate expenditures (£4.1 million) related to increased service charges and other occupancy costs in the new HQ building, higher centrally managed technology costs (£3.9 million), staff benefit increases linked to medical cost inflation (£2.5 million) and information services and audit costs (£1.4 million).

Table 5.4: Key Movements in the 2024 Budget (£ million)

2023 Budget		448.2			
	Changes	Proposed	Saving	Net	Increase
A.	Non-discretionary	9.5		9.5	2.1%
	FX impact	(2.4)		(2.4)	
	General Staff Benefits	2.5		2.5	
	ASD	4.1		4.1	
	IT	3.9		3.9	
	BIS, Audit, Other	1.4		1.4	
B.	2024 Compensation Proposal	17.2		17.2	3.8%
	Market movement	16.2		16.2	
	Board & Senior Management	1.0		1.0	
C.	Other Movements and Efficiencies	12.3	(7.8)	4.4	1.0%
	War on Ukraine	2.4		2.4	
	SCF Priorities - Green	0.7	(0.3)	0.4	
	SCF Priorities - Digitalisation	1.2	(0.2)	1.0	
	SCF Priorities - Equality of Opportunities	0.1		0.1	
	Geographic Mobility - STAs	0.8	(0.8)	-	
	Reinforcing Delivery	7.2	(6.6)	0.6	
D.	Total Movements	38.9	(7.8)	31.1	6.9%
2024 Budget		479.3			

Note: ASD is Administrative Services Department, BIS is Business Information Services, STAs are short term assignments. Numbers are rounded to one decimal point. The sum of subtotals may not add up exactly to aggregate numbers.

  - These are partially offset by **favourable FX impact of £2.4 million**, which reflects a strengthening of sterling against US dollar.
- **£17.2 million additional budget for the 2024 compensation proposal** (factor B), including**:**
  - **£16.2 million cost of market movement** in respect of the 2024 forecast staff cost budget increase, equivalent to about a 6.1 per cent salary increase (5.5 per cent HQ and 8.9 per cent across the resident offices) from January 2024.
  - **£1.0 million** for Board, VP and senior management compensation increases.
- **Gross staff and non-staff resource needs of £12.3 million, funded through £7.8 million of offsetting efficiencies and reallocations, resulting in £4.4 million of incremental budget allocations** (factor C), comprising the following:
  - **War on Ukraine.** £2.4 million budget, including 10 incremental FTEs, is proposed for supporting corporate recovery, sanction compliance, evaluation, and donor engagement with increased workloads linked to the war on Ukraine.
  - **Green.** £0.4 million funding, including one incremental FTE, is proposed for the delivery of Task Force on Climate-related Financial Disclosures (TCFD) related to ISSB disclosure. Non-staff budget for consultancy and travel related to the evaluation of and external engagements on green and other environmental and social activities.
  - **Equality of opportunity.** £0.1 million budget for consultancy and external engagement.
  - **Digitalisation.** The resources are directed primarily to promote internal digitalisation of the EBRD's operations. £1.0 million budget, including four incremental FTEs, is proposed to support resources in IT (three FTEs) for data integration, self-service analytics as defined within the SCF and Data Strategy and technical support for software and hardware with data vendors; and one FTE for technical support for the hybrid delivery of the Annual Meeting. Non-staff budget for the funding of the EBRD's flagship surveys conducted jointly with the World Bank Group (household-level Life in Transition Survey) and the EIB (firm-level Enterprise Surveys including specific modules such as green economy, digitalisation, etc.), the Banking Environment and Performance Survey and expertise related to evaluation targeting digitalisation.
  - **Reinforcing delivery.** £0.6 million budget, including eight incremental FTEs, is proposed. Incremental staff are to support access to information services, Finance support for banking services, integrity screening and compliance, consultancy to assist with complex investigations in OCCO, to deliver IAD's work programmes, media monitoring, energy and financial resilience (MREL and NPL), and other direct costs.
  - **Geographic mobility.** £0.8 million related to inflationary pressures on accommodation and relocation costs impacting short-term geographic assignments (planned volume of short-term assignments remains unchanged from 2023 levels), which will be funded by exploiting further efficiencies in 2024.

This results in a total of £4.4 million net incremental budget allocations.

The offsetting efficiencies and reallocations amounting to £7.8 million have been achieved through staff cost efficiencies from workload re-evaluation, repurposing vacancies and reassessing spans and layers through position grades, commercial savings from stopping some activities, improving the cost efficiency of contracts, decommissioning legacy IT systems, and changes in the scope of third party IT support. £1.5 million of the offsetting efficiencies are directly linked to MYIP.

5.4.3.2 Core budget – details

By cost line

An increase of £31.1 million or 6.9 per cent is proposed for the 2024 core administrative expense budget. The total budget of £479.3 million is broken down by category in Table 5.5.

Table 5.5: Detailed Administrative Expense Budget for 2024 (£ million)

Administrative Expenses	2021 Actual	2022 Actual	2023 Budget	2024 Budget	2024 vs 2023 £ million	2024 vs 2023 Per cent
Salaries	142.6	150.3	172.6	182.8	10.2	5.9%
Total Benefits	109.8	113.1	121.9	130.2	8.2	6.7%
Performance Based Compensation	21.9	22.4	23.3	24.9	1.6	6.7%
Other Staff Costs	2.1	2.1	1.3	1.3	-	-
Staff Costs	**276.4**	**287.9**	**319.2**	**339.2**	**20.0**	**6.3%**
Consultancy/Legal	14.6	16.6	12.1	12.8	0.7	5.8%
Travel/Hospitality	1.6	9.8	10.1	11.3	1.2	12.1%
Other Direct Costs	14.4	13.2	14.6	15.0	0.3	2.4%
Non Staff Costs	**30.6**	**40.5**	**36.9**	**39.1**	**2.3**	**6.2%**
Direct Costs	**307.1**	**326.3**	**356.1**	**378.4**	**22.3**	**6.3%**
Occupancy Costs	13.1	3.9	13.3	15.5	2.2	16.7%
Technology (License, Hosting & Vendor)	24.0	25.1	25.6	28.5	2.9	11.3%
Annual Meeting	1.1	1.3	1.5	1.5	(0.0)	(0.0%)
Central Staff Expenses	6.4	5.5	7.2	8.4	1.2	16.7%
Institutional Fees	1.7	2.3	2.4	2.3	(0.0)	(1.1%)
Depreciation	40.7	43.4	41.8	43.3	1.5	3.7%
Contingency		-	0.3	1.3	1.0	298.5%
Total Centrally Managed Costs	**87.0**	**81.5**	**92.1**	**100.9**	**8.8**	**9.6%**
Core Admin Expenses	**394.1**	**409.9**	**448.2**	**479.3**	**31.1**	**6.9%**

Note: Numbers are rounded to one decimal place and subtotals may not add up to aggregate numbers exactly.

Total staff costs budget increase by £20.0 million or 6.3 per cent and reflects the increases for the 2024 compensation and benefits proposals (£16.2 million or 6.1 per cent for salary increases with £14.8 million on salary mass and £1.4 million impact on PBC), full year impact on benefits linked to medical inflation (£2.5 million), Board and VP compensation and benefits (£1.0 million), increase in geographical mobility linked to inflationary pressures on accommodation and relocation costs (£0.8 million), net incremental resource requests for business priorities (£1.9 million), increase from reallocation of realised efficiencies to staff costs (£0.1 million), partially offset by non-discretionary decrease linked to the FX impact on local staff costs (£1.7 million) as well as linked reclassification and impact of additional efficiency measures (£0.8 million).

Total non-staff costs budget increase by £2.3 million or 6.2 per cent and is driven by non-staff costs budget requested under business priorities (£2.8 million), contractual price increases for audit fees and higher information services costs and other direct costs (£0.8 million), increased IT-related contractors costs now taking on managed services (£0.2 million), as well as the consultancy account reclassification under the management reserve (£1.0 million) partially netted off by FX impact (£0.3 million) and reallocation from realised efficiencies in staff costs (£0.2 million).

An increase of £8.8 million or 9.6 per cent in centrally managed costs mainly relating to the price impact for centrally managed IT (£2.5 million) resulting from increases in technology licensing and managed services costs and user growth, delivery of targeted crisis response products in Ukraine, including the PRS Sub-Loan Technology Platform (£0.4 million), real estate costs linked to RO rent (£0.7 million), HQ service charge (£2.2 million) offset by a reduction in electricity cost (£1.5 million), increase in business rates (£0.3 million), engineering, technology maintenance and other inflationary adjusted costs (£1.4 million), increased central staff expenses in relation to catering, mainly related to the impact of inflation on catering goods and services (£0.8 million), additional health and safety and RO maintenance expenditure (£0.2 million) as well as higher depreciation costs (£1.6 million), including expected Libor project depreciation (£0.7 million). This is offset by FX variances (£0.3 million), lower institutional fees, reduction on annual meeting expenditure and additional efficiency measures (£0.5 million). Reclassification of management reserve from non-staff costs to central costs adds an extra £1.0 million.

Total contingency funds included in the 2024 budget are £1.3 million, or around 0.3 per cent of the core administrative budget. This includes a management reserve of £1.0 million (reclassification of the existing 2023 management reserve budget previously reported under the consultancy line) together with the existing £0.3 million general contingency (use of the latter is subject to Board approval).

Departmental budgets

An increase of £22.3 million or 6.3 per cent is proposed for direct costs. The total direct costs budget of £378.4 million for 2024 is broken down by department in Table 5.6. Variance against 2023 for the proposed 2024 budget, shown in the last column, is explained in this section.

CSG: Direct costs decrease by £3.0 million. A £7.0 million decrease is due to reallocation of the geographic mobility budget while there is a £0.6 million increase for non-staff costs linked to consultancy, legal and travel and £0.1 million for database licences. FX impact of £2.0 million, and £5.3 million for increases in allocated staff benefits for 2024.

Finance: Direct costs increase by £1.8 million. £0.6 million incremental increase for eight FTEs, £0.3 million in non-discretionary contractual increases of audit fees and £0.3 million for database licences. A decrease of £0.1 million due to reallocation of the geographic mobility budget. FX impact of £0.2 million, and £0.9 million for increases in allocated staff benefits for 2024.

VP CTO: £1.2 million increase, including £0.6 million for six FTEs to support data integration, information security governance and compliance and £0.2 million for increases in database licences, maintenance and consultancy. £0.5 million for increases in allocated staff benefits for 2024.

VP, Risk and Compliance: Direct costs increase by £1.5 million, £0.7 million decrease due to reallocation of the geographic mobility budget compensated by an increase of £0.9 million for SCF priorities, and £0.1 increase for database licences. £1.2 million for increases in allocated staff benefits for 2024. The £0.9 million additional funding provided for SCF priorities and

Table 5.6 Direct Costs by Department (£ million)

Department	2023 Budget	2024 Budget	Variance 24 vs 23
Banking	139.5	136.2	(3.3)
VP, Policy & Partnerships	32.1	32.4	0.2
Client Services Group	**171.6**	**168.6**	**(3.0)**
Finance	32.1	33.9	1.8
VP CTO	17.5	18.7	1.2
VP, Risk and Compliance Group	38.5	40.0	1.5
Office of the General Counsel	19.4	19.8	0.5
Office of the Chief Economist	3.4	4.3	0.9
Internal Audit	2.2	2.4	0.2
Corporate Strategy	2.1	2.1	(0.0)
Communications	4.0	4.2	0.2
Office of the Secretary General	5.0	5.2	0.2
President's Office	1.8	1.9	0.1
Human Resources Department	8.7	9.7	1.0
Indep. Project Account. Mechanism	1.4	1.5	0.2
Evaluation Department	3.7	4.1	0.4
Board of Directors	15.2	16.4	1.2
Unallocated salary increase, PBC and central staff costs	29.5	45.6	16.1
Core Direct Costs	**356.1**	**378.4**	**22.3**

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

business needs reflects an additional six FTEs and non-staff costs:

- Five FTEs to support compliance caseload, data analytics and fraud avoidance and one FTE on Taskforce on Climate Related Financial Disclosure (TCFD) related to International Sustainability Standards Board (ISSB) disclosure.
- Additionally, £0.3 million non-staff costs are allocated to cover consultancy and assisting with large scale complex investigations.

Office of the General Counsel: Direct costs increase by £0.5 million due to reallocation of the geographic mobility budget (£0.1 million) and £0.6 million of allocated staff benefits for 2024.

Office of the Chief Economist: Direct costs increase by £0.9 million. £0.1 million incremental increase for one FTE for communication and media outreach and £0.7 million non-staff budget for the EBRD's flagship surveys conducted jointly with the World Bank Group, the EIB and the Banking Environment and Performance Survey. £0.1 million for increases in allocated staff benefits for 2024.

Internal Audit: £0.2 million increase in direct costs, of which £0.1 million to deliver IAD's work programme using external partners for audit subject matter expertise and ensuring compliance with IIA professional practices and £0.1 million for increases in allocated staff benefits for 2024.

Corporate Strategy: Decrease of £0.1 million in the direct costs budget arising from efficiencies achieved by workload reallocation, offset by £0.1 million for increases in allocated staff benefits for 2024.

Communications: An increase of £0.2 million, of which £0.1 million for media monitoring and analytics and event hosting, and £0.1 million for increases in allocated staff benefits for 2024.

Office of the Secretary General: £0.1 million increase for one FTE for technical support for a hybrid delivery of the Annual Meeting and £0.1 million for increases in allocated staff benefits in 2024.

Human Resources: £0.7 million increase in costs related to the International Professionals Programme and £0.3 million for increases in allocated staff benefits for 2024.

IPAM: £0.1 million increase in direct costs for one FTE linked to increased volume of cases and learning materials production and £0.1 million for increases in allocated staff benefits for 2024.

Evaluation Department: £0.4 million increase of which £0.3 million is direct costs for consultancy support in line with the business model to deliver a work plan supporting SCF priorities and £0.1 million for increases in allocated staff benefits for 2024.

Board of Directors: £1.2 million additional budget related to the 2024 compensation and benefits proposal, including £0.5 million for increases in allocated staff benefits for 2024.

Unallocated: The £16.1 million increase includes £16.2 million in respect of the 2024 forecast increase in compensation budget (yet to be allocated across departments), an increase linked to compensation changes for senior management of £0.3 million and £0.7 million ringfenced for an increased presence and delivery of targeted crisis response products in Ukraine, offset by £1.0 million reclassification of the management reserve from direct costs to central costs.

5.5 Capital expenditure

A summary of planned capital expenditure under the current SIP is presented in Table 5.7. This includes capital expenditure for business as usual activities, as well as for strategic investments and projects.

5.5.1 HQ and resident offices (ROs)

Capital expenditure for offices is budgeted for and indirectly approved through its effect on depreciation, with a total of £4.5 million capital expenditure planned for HQ and resident offices (business as usual).

- **HQ.** £0.9 million for post-relocation review and remedial works to ensure a safe and comfortable working environment based on the Leesman Survey results.
- **ROs.** Planned capital expenditure for 2024 is £3.6 million and includes:
  - relocation of offices in Cairo, Dushanbe, Kyiv and Lviv
  - refurbishments in Almaty, Casablanca, Sofia, Ulaanbaatar and Yerevan
  - furniture replacement in the Ashgabat office

Table 5.7 Capital Expenditure (£ million)

Capital Expenditure	2023 Budget	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2023-2027 Total
IT	5.6	8.7	TBC	TBC		14.3
HQ	0.8	0.9	TBC	TBC		1.7
Resident Offices	3.9	3.6	TBC	TBC		7.5
Business as usual	10.3	13.2	TBC	TBC		23.5
MYIP - Phase 1	18.1	5.5	1.8	-		25.4
MYIP - Phase 2	22.6	13.5	7.4	1.0	-	44.6
MYIP - Phase 3	16.8	19.5	24.6	10.2	2.6	73.7
MYIP - Phase 4		3.8	6.8	4.6	0.9	16.2
Sub-total MYIP (Phases 1, 2, 3 and 4)	57.5	42.3	40.7	15.8	3.5	159.8
Total	67.8	55.5	40.7	15.8	3.5	183.3

Note: From 2024 onwards the MYIP forecast estimates are based on scheduled programmes and resource availability. In 2023 major projects closed such as the HQ move (£111 million), Data centre, IT upgrade phase 1 and ASD. Numbers are rounded to one decimal place; the sum of subtotals may not add up exactly to aggregate numbers.

- a new Satellite office in Qarshi
- replacement of 11 RO vehicles.

5.5.2 IT capex – business as usual (BAU)

Planned IT capital expenditure in 2024, excluding carried forward budgets and investment related to the multi-year investment plan, is £8.7 million, including:

- non-discretionary expenditure of £0.8 million for 2024 to cover ROs and new hardware requirements to align with the increase in demand for mobile phones, new starter laptops, expansion and relocation of ROs, and to fix and replace IT equipment
- £1.3 million for a laptop refresh in HQ and transition to Windows 11
- business pipeline projects of £1.5 million in 2024 to meet urgent intra-year business-led demand, with funding allocation to be reviewed and approved by the IT Governance Committee (ITGC)
- £2.0 million in IT transformation capacity for staff to work on a backlog of small enhancements and improvements of systems to support business demand
- Tech-led pipeline projects of £2.0 million for development work, tactical performance enhancements and emergency remediation
- £1.1 million for the mandatory upgrade of applications, systems and hardware to remain current.

For pipeline projects, the business case, scope and budget requirements will be finalised and approved by management.

5.6 Multi-Year Investment Plan

In July 2020 the Board acknowledged the need for a multi-year investment plan (MYIP) of approximately £200 million over the period 2020-25. It was agreed that budgets for each phase of the programme would be subject to a discussion and agreement as part of the annual SIP process and would be held separately from the core administrative budget until all projects in all phases went live. Each request for funding is presented to a Programme Steering Board (PSB) for approval.

The MYIP continues to be a priority for the Bank. As explained in Chapter 3 there are four phases to the programme, with confirmation of Phase 4 requested in this year's SIP.

5.6.1 Phases 1, 2 and 3

Capex of £78.3 million for Phase 1, £47.1 million for Phase 2 and £62.9 million for Phase 3 were confirmed respectively in each of the last three SIPs, along with the financial implications concerning operating expenditure and depreciation. The cost impact on the 2024 budget (operating expenses and depreciation) of these phases is calculated as £36.6 million, rising to £42.2 million in 2025 and £53.5 million in 2026. (See Table 5.8). In future years, costs will be partially offset by process efficiencies and reduced operational risk. The expected value of these offsets will be identified as initiatives are developed.

Table 5.8: MYIP Financial Implications, Phases 1-4 (£ million)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Operating expenses	0.8	7.1	12.4	10.9	10.9	11.0	11.1	11.3	11.3	11.3	11.3
Depreciation	0.2	1.5	10.5	11.3	12.5	13.4	12.1	8.5	7.1	4.7	4.7
Phase 1	**1.0**	**8.6**	**22.9**	**22.2**	**23.4**	**24.5**	**23.3**	**19.7**	**18.3**	**15.9**	**15.9**
Operating expenses	0.0	0.6	8.1	10.1	10.3	11.2	9.7	9.7	9.7	9.7	7.6
Depreciation	0.0	0.0	0.4	0.9	2.5	4.4	4.8	4.8	4.8	4.5	3.2
Phase 2	**0.0**	**0.6**	**8.5**	**11.0**	**12.8**	**15.6**	**14.6**	**14.5**	**14.5**	**14.1**	**10.8**
Operating expenses	0.0	0.0	0.0	1.9	2.9	6.4	12.8	14.7	14.7	14.8	14.0
Depreciation	0.0	0.0	0.2	0.2	0.8	3.9	7.1	8.8	8.8	8.7	8.4
Phase 3	**0.0**	**0.0**	**0.2**	**2.1**	**3.7**	**10.3**	**19.9**	**23.5**	**23.5**	**23.5**	**22.4**
Operating expenses	0.0	0.0	0.0	1.3	2.2	2.6	4.6	6.0	6.0	6.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.1	0.5	1.8	2.3	2.3	2.3	2.3
Phase 4	**0.0**	**0.0**	**0.0**	**1.3**	**2.3**	**3.1**	**6.5**	**8.3**	**8.3**	**8.3**	**2.3**

Note: Estimates of operating expenses for Phases 1 to 4 are based on projects capitalised up to Q2 2023 and on future project capitalisation dates, without allowance for inflation.

As set out in Chapter 3 these investments have delivered a series of successful initiatives, leading to an important reduction in the operating risks facing the Bank and helping to improve efficiency in many core functions and processes. Ongoing MYIP investments and initiatives in the pipeline will reduce risks, improve resilience and enhance the Bank's operational capabilities, further providing a more robust business platform that supports clients, stakeholders and staff effectively across key processes, data management and technologies.

5.6.2 Phase 4: SIP 2024-26 request

Phase 4 aims to enhance user experience (clients and partners), including via a new client portal and strategic information management suite with improved data analytics and knowledge management capabilities. **Capex of £16.2 million is confirmed for Phase 4. The cost impact (opex and depreciation) on the 2024 budget is £1.3 million, rising to £2.3 million in 2025 and £3.1 million in 2026.**

5.6.3 Benefits

In addition to a substantial reduction in IT risk resulting from MYIP, **cumulative cost savings of around £40 million have been identified to date** from investments such as Monarch. Additional financial benefits of at least £50 million are expected from future investments across the Bank. Non-financial benefits, including data quality and reporting capabilities as well as improved employee engagement, are also expected.

The efficiencies identified in MYIP business cases are expected to achieve an **annual cost reduction of around £10 million per year from 2027**, contributing to keeping the Bank within its cost to debt income ratio target (as exemplified by the £1.5 million in MYIP-related efficiencies supporting this SIP proposal).

6. Governance, incentives and accountability

Introduction

By design, the SCF retains a certain level of flexibility and allows the Bank to respond to opportunities and circumstances to deliver its objectives. This flexibility is exercised within a clear framework for accountability. Control parameters are set to provide assurance to shareholders that the Bank is pursuing its strategic objectives responsibly and management is held to account for the Bank's performance on the basis of an annual scorecard set out in the SIP and approved by the Board.

6.1 The control parameters

The control framework consists of six elements that relate to the three key components of the Bank's operating framework:

- **Transition.** The transition parameters set minimum levels for the quality of the Bank's transition delivery through its projects at approval and throughout their life. The average level of transition impact that should be exceeded is set for the Bank's projects at their initial approval (expected transition impact, ETI) and over their lifetime (portfolio transition impact, PTI) as measured through the Bank's internal monitoring systems.
- **Capital.** The capital parameters set maximum levels of capital utilisation, as measured both on a statutory basis and through the Bank's Capital Adequacy Policy (CAP).
- **Resources.** The resource parameters set maximum levels for the annual level of the Bank's cost to debt income ratio and the five-year rolling average of the share of staff costs in total costs.

Projections for the development of the capital and resource control parameters are presented for the period covered by the SIP in Table 7.1. The table shows that the Bank has been performing within the constraints set by the control framework and is projected to continue to do so within the period of this SIP.

- The levels of ETI and PTI at 68.3 and 75.4 at the end of September 2023 are well above the control levels of 60 and 65 respectively set out in the SCF.
- Capital utilisation levels are below the 90 per cent threshold for the Bank's CAP, whereas the statutory capital utilisation is expected to exceed the prudential limit of 92 per cent in 2026 as asset growth outpaces capital accumulation (see Section 4.3).This potential breach is expected to be mitigated by the receipt of paid-in capital payments in the second half of the SIP period, and by potential revisions to the construct of the ratio following relocation of this statutory constraint from the Bank's articles to a Board of Directors level policy.
- Both the resource parameters are currently below the control levels of 70 per cent for the cost-to-debt ratio and 70 per cent based on a five-year rolling average for the ratio of staff costs to total costs. The projections show that this will continue over the period covered by the SIP.

Table 6.1 Projected SCF Control Parameters 2021-2026

	Control Level	2021 Actual	2022 Actual	2023 Estimate	2024 Projected	2025 Projected	2026 Projected
Transition Parameters							
Expected Transition Impact	> 60	67.7	67	68.3	> 63	> 63	> 63
Portfolio Transition Impact	> 65	72.8	76.4	75.4	> 68	> 68	> 68
Capital Parameters							
Statutory Capital Utilisation	< 92%	79%	83%	84%	84%	84%	87%
Capital Adequacy Utilisation	< 90%	65%	65%	64%	65%	63%	62%
Resource Parameters							
Cost to Debt Income ratio	< 70%	46.9%	60.3%	58.6%	62.8%	64.5%	65.8%
Staff Cost to Total Cost ratio *	< 70%	68.3%	68.6%	68.6%	68.2%	66.9%	65.7%

* 5-year average

6.2 Corporate scorecard

The Board of Directors approved the template for the corporate scorecard in October 2020 to reflect the priorities of the SCF 2021-25. The levels for each element in the scorecard are presented below. They act as incentives for management and staff to deliver results and reflect the Bank's projections and ambitions for 2024, as set out in the rest of this document.

Transition impact

- **Average ETI is set as a range of 63-69:** The range for average ETI on all new projects rated during the year is set at a similar level to the 2023 scorecard reflecting the Bank's continuing ambition to deliver a strong impact.
- **Average PTI is set at a minimum level of 68**, also similar to SIP 2023-25. The three-year moving average of the difference between ETI and PTI is 6.3 points as transition impact is realised and the risks to future transition delivery decrease.
- **For each of the six transition qualities**, there will be a quantitative and qualitative assessment, as currently, through Composite Performance Assessments, each rated either Very Good, Good or Requires Attention.
- **Green Economy Transition is set as a percentage of ABI at 50 per cent.** The target matches, one year ahead, the strategic objective set out in SCF 2021-25 to reach 50 per cent by the end of 2025, reflecting the strong focus of the Bank on Green Economy Transition and successful delivery in that domain since 2021.
- **The target for gender-tagged operations is set at a minimum share of 35 per cent of the total number of projects.** This is five percentage points higher than the SIP 2023-25 objective and in line with the Bank's commitment to reach 40 per cent of operations by the end of the SCF period.

Operational performance

- **The number of operations is set as a range of 395 to 435** reflecting projected activity composition levels and expected project size dynamics**.**
- **ABI is set as a range €11.5 billion to €12.5 billion,** a €1 billion higher range than in SIP 2023-25, reflecting the Bank's ambitions and expected transition opportunities across the Bank's regions with support to Ukraine and countries affected by the conflict.
- **Annual Mobilised Investment (AMI) is set at €2.0 billion,** an increase of €0.6 billion compared with the SIP 2023-25 objective, reflecting expected business opportunities over the period, notwithstanding the challenging market conditions. This level is in line with the enhanced goal under GCI policy

commitments of reaching €2.5 billion annually by the end of 2025.

- **Annual disbursements are set as a range of €8.0 billion to €9.0 billion** reflecting expected ABI in 2024.
- **The private sector share of ABI is set at a minimum of 75 per cent**, consistent with the medium-term objective in the SCF.
- **Activity in the ETCs, Western Balkans and SEMED is maintained at a minimum of 48 per cent of ABI,** reflecting the continued focus on investment in priority regions as set out in the SCF. Similar to 2022 and 2023, the immediate operational objective to invest in Ukraine and affected countries is expected to substantially impact the share of activity outside priority regions in 2024 and beyond. With the loss of Belarus, an ETC country, and the limited investment opportunities in a number of priority countries, delivery of this scorecard objective, based on a share of total volume, is likely to be negatively impacted in 2024 and 2025 as a result.

Financial performance

- **Return on required capital is set as a three-year rolling average minimum of 3.5 per cent,** reflecting its nature as a "through the cycle" measure of performance.
- **Debt return on required capital is set at a minimum level of 9.0 per cent.** The target is set at a level that is two percentage points below the 2024 projection of 11.3 per cent, reflecting the substantial uncertainty of the economic environment.

Institutional performance

- **Productivity is set as a range of 1.2-1.4**, reflecting the proposed budget and operational plan for 2024. The metric is based on the annual number of operations plus the number of operations monitored in the portfolio, divided by the actual level of expenditure of the Bank (expressed in pounds sterling). The lower level proposed for 2024 reflects core budget pressures driven by high inflation.
- **Cost to debt income is set at a maximum level of 65 per cent.** While costs are expected to be highly predictable, the level is set slightly above the central forecast for 2024 to allow for potential fluctuations in debt income.
- **Operational risk assessment.** This measure is designed to assess the Bank's progress in achieving the goal of creating an organisation where management and staff show accountability and leadership in proactively identifying, mitigating and reporting risks to ensure the risk profile remains within adequate tolerance. The assessment is made annually through a mix of quantitative and qualitative measures, rated as either Very Good, Good or Needs Improvement, and is shared with the Board of Directors.
- **Staff engagement** is a tracked indicator that has no specific target associated with it but informs the annual assessment of the performance of the Bank against the scorecard.

Resource framework

- **The administrative expense budget** is set at €603.6 million (£515.9 million).

Corporate scorecard, 2024

	2024	30/09/2023		2023	2022	
	BP and budget	Actual	Plan rate	BP and budget	Actual	Plan rate
TRANSITION IMPACT						
Expected transition Impact	63 – 69	68.3		63 – 69	67.0	
Portfolio transition Impact	Min 68	75.4		Min 68	76.4	
Transition qualities						
Competitive, innovative economies	CPA*	CPA*		CPA*	Good	
Well-governed economies and firms	CPA*	CPA*		CPA*	Good	
Environmentally sustainable, green economies	CPA*	CPA*		CPA*	Very Good	
Inclusive, gender-equal economies	CPA*	CPA*		CPA*	Very Good	
Resilient economies and firms	CPA*	CPA*		CPA*	Good	
Well-integrated, connected markets	CPA*	CPA*		CPA*	Good	
Green Economy Transition (% ABI)	50%	53%		45%	50%	
Gender-tagged operations (% No. of ops)	min 35%	41%		min 30%	37%	
OPERATIONAL PERFORMANCE						
Number of operations	395 – 435	317		395 – 435	431	
Annual Bank Investment (€ billion)	11.5–12.5	8.4	8.4	10.5-11.5	13.1	12.8
Annual Mobilised Investment (€ billion)	Min 2.0	1.6		Min 1.4	1.7	
Private sector share (% ABI)	Min 75%	80%		Min 75%	74%	
Disbursements (€ billion)	8.0-9.0	7.1	7.1	7.0 – 8.0	8.8	8.7
Activity in the ETCs, Western Balkans and SEMED (% ABI)	Min 48%	37%		Min 48%	43%	
FINANCIAL PERFORMANCE						
Return on required capital (three-year rolling average)	Min 3.5%	11.3%		Min 3.5%	3.30%	
Debt return on required capital before costs	Min 9%	14.7%		Min 12%	-10.50%	
INSTITUTIONAL PERFORMANCE						
Productivity (number of operations based)	1.2-1.4	Annual		1.3-1.5	1.5	-
Cost to debt income ratio (12 months rolling avg)	Max 65%	61.4%		Max 63%	60.5%	
Staff engagement ratio	tracked	Annual		tracked	7.0	
Operational risk assessment	tracked	Annual		tracked	Adequate	
RESOURCE FRAMEWORK						
EXPENDITURE						
Administrative expense budget						
Euro (million)	603.6	371.1		510.9	478.5	
Pound sterling (million)	515.9	326.2		448.4	407.8	

*Composite Performance Assessment

Annex 1. The Bank in 2025

SCF Box 1[36]

Based on the strategic directions of the SCF, by 2025, the Bank will have:

- Provided timely and effective support to countries of operations to preserve and accelerate transition in the context of the economic crisis caused by the COVID-19 pandemic.
- Demonstrably focused its efforts on supporting those of its countries of operations less advanced in transition, including the Early Transition Countries[37] (ETCs), SEMED and the Western Balkans, through enhanced investment and policy activity.
- Reinforced its private sector focus by ensuring that more than three-quarters of the Bank's total investment in the SCF period is in the private sector.
- Directly supported progress towards green, low-carbon economies through higher levels of investment in the Green Economy Transition.
- Promoted equality of opportunity for disadvantaged groups and deepened the mainstreaming of gender considerations in projects through strengthened capacity for investment and policy engagement.
- Launched comprehensive and coherent activities to help countries of operations leverage the digital transition as an enabler of transition across all sectors.
- Successfully begun operations in new countries of operations within the Bank's existing region, such as Algeria, subject to the approval of Governors.
- If approved by the Board of Governors, taken steps to begin operations in a limited number of countries beyond the Bank's current geographic region.
- Strengthened support for any country that chooses to graduate from the use of the Bank's resources through an enhanced Post-Graduation Operational Approach.
- Increased the levels of private capital it mobilises for countries of operations through a widened and deepened scope of activities.
- Achieved greater transition impact by further integrating policy engagement and investment activity and reinforced its ability to measure its effectiveness
- Strengthened its overall results framework, knowledge management and the use of evaluation findings to improve the design and impact of operations.
- Enabled cost effective delivery of the SCF through investment in staffing, skills, processes, systems and IT upgrades, as well as increased efficiency and reallocation.

[36] The EBRD's Strategic and Capital Framework 2021-25, p. 18.
[37] Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

Annex 2. Definition of annual mobilised investment

The present definition of annual mobilised investment (AMI) may be summarised as follows:

1. Annual mobilised investment automatically includes the following, provided a relevant and meaningful fee is earned or skimmed by the EBRD:
   - All funds – public and private – mobilised through the B loan programme, parallel financing, secondary sales, securitisation programme or similar.
   - Unfunded mobilisation via unfunded risk participations (URPs) and non-payment insurance (NPI).
   - Investments from partner banks under the Risk Sharing Facility (RSF) or similar programmes triggering co-investment.
   - Debt and bond frameworks where on-lending multiples are covenanted in the legal documentation.
   - All private funds mobilised in the Trade Facilitation Programme on both funded and unfunded bases, as applicable.
2. Annual mobilised investment may also include commercial finance in the context of:
   - Equity and equity funds.
   - Bonds in certain circumstances, including on-lending multiple requirements or substantial transition impact created by the EBRD's involvement.
   - Amounts (debt and equity) co-invested in projects supported through dedicated advisory services such as the Infrastructure Project Preparation Facility (IPPF) or the Renewable Auctions programme,
   - Amounts triggered by EBRD-administered concessional finance instruments such as guarantees or other de-risking structures.

Annex 3. Budget data disclosure reporting

Responding to the request by members of the Bank's Budget and Administrative Affairs Committee for enhanced budget data disclosure in the Strategy Implementation Plan document, this Annex provides the five-year trend of:

- Table A.1: Core Administrative Expense Budget (2020-24)
- Table A.2: Detailed Core Administrative Expense Budget (2020-24), including a further breakdown of staff costs (benefits lines)
- Table A.3: Direct Costs by Department (2020-24)
- Table A.4: HQ and RO occupancy.

Board Online Information (BOI) report this data and is updated to also reflect budget and actual costs for extraordinary items (Libor, MYIP), as well as a temporary treatment of 5 Bank Street HQ costs outside core administrative expenses.

The following table is included to provide indicative resources and costs for SCF priorities during the SIP 2024-26 period. Resources and costs for 2025 and 2026 are estimated at a high level, and are subject to further refinement in subsequent SIP documents.

- Table A.5: SCF Priorities Multi-Year Investment for 2024-26

Table A.6 is included to show that efficiencies identified for 2024 are retained over the SIP 2024-26 period. It is expected that further efficiencies will be identified in future SIPs.

- Table A.6: Efficiencies by Enablers 2024-26 (£ million)

Table A.1 Core Administrative Expense Budget for 2024, 5-year view (£ million)

Administrative Expenses	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2024 vs 2023 £ million	2024 vs 2023 Per cent
Operating expenses	339.8	351.4	366.6	406.4	436.0	29.6	7.3%
Depreciation	43.6	43.1	43.6	41.8	43.3	1.5	3.7%
Core Admin Expenses	**383.4**	**394.5**	**410.1**	**448.2**	**479.3**	**31.1**	**6.9%**

Table A.2 Core Administrative Expense Budget for 2024 (Detailed), 5-year view (£ million)

Administrative Expenses	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2024 vs 2023 £ million	2024 vs 2023 Per cent
Salaries	141.3	147.5	155.1	172.6	182.8	10.2	5.9%
Total Benefits	102.1	107.2	110.3	121.9	130.2	8.2	6.7%
Performance Based Compensation	16.1	16.7	20.7	23.3	24.9	1.6	6.7%
Other Staff Costs	1.4	1.4	1.4	1.3	1.3	-	-
Staff Costs	**260.9**	**272.8**	**287.5**	**319.2**	**339.2**	**20.0**	**6.3%**
Consultancy/Legal	11.1	10.7	11.5	12.1	12.8	0.7	5.8%
Travel/Hospitality	13.2	10.6	10.1	10.1	11.3	1.2	12.1%
Other Direct Costs	12.9	13.8	13.8	14.6	15.0	0.3	2.4%
Non Staff Costs	**37.2**	**35.2**	**35.4**	**36.9**	**39.1**	**2.3**	**6.2%**
Direct Costs	**298.1**	**307.9**	**322.9**	**356.1**	**378.4**	**22.3**	**6.3%**
Occupancy Costs	11.0	11.0	10.1	13.3	15.5	2.2	16.7%
Technology (License, Hosting & Vendor)	21.9	23.2	24.0	25.6	28.5	2.9	11.3%
Annual Meeting	1.2	1.2	1.2	1.5	1.5	(0.0)	(0.0%)
Central Staff Expenses	5.4	5.7	5.9	7.2	8.4	1.2	16.7%
Institutional Fees	1.9	2.1	2.2	2.4	2.3	(0.0)	(1.1%)
Depreciation	43.6	43.1	43.6	41.8	43.3	1.5	3.7%
Contingency	0.3	0.3	0.3	0.3	1.3	1.0	298.5%
Total Centrally Managed Costs	**85.3**	**86.6**	**87.2**	**92.1**	**100.9**	**8.8**	**9.6%**
Core Admin Expenses	**383.4**	**394.5**	**410.1**	**448.2**	**479.3**	**31.1**	**6.9%**

Table A.3: Direct Costs by Department, 5-year view (£ million)

Department	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2024 Budget	Variance 24 vs 23
Banking Department	123.6	118.2	126.0	139.5	136.2	(3.2)
VP, Policy & Partnerships	27.0	26.3	29.2	32.1	32.4	0.2
Client Services Group	**150.6**	**144.5**	**155.2**	**171.6**	**168.6**	**(3.0)**
Finance	25.3	26.3	28.0	32.1	33.9	1.8
VP CTO	13.6	14.6	15.9	17.5	18.7	1.2
VP, Risk and Compliance Group	29.3	30.9	35.1	38.5	40.0	1.5
Office of the General Counsel	16.8	16.7	17.6	19.4	19.8	0.5
Office of the Chief Economist	2.4	2.4	2.8	3.4	4.3	0.9
Internal Audit	1.3	1.6	2.0	2.2	2.4	0.2
Corporate Strategy	1.7	1.6	1.9	2.1	2.1	(0.0)
Communications	4.4	4.3	4.5	4.0	4.2	0.2
Office of the Secretary General	4.6	4.6	4.7	5.0	5.2	0.2
President's Office	1.8	1.7	1.7	1.8	1.9	0.1
Human Resources Department	8.2	8.1	7.7	8.7	9.7	1.0
Indep. Project Account. Mechanism	0.8	1.1	1.2	1.4	1.5	0.2
Evaluation Department	3.1	3.3	3.4	3.7	4.1	0.4
Board of Directors	13.8	13.8	14.1	15.2	16.4	1.2
Unallocated salary, PBC and central staff costs	20.2	32.5	27.0	29.5	45.6	16.1
Total Direct Costs	**298.1**	**307.9**	**322.9**	**356.1**	**378.4**	**22.3**

Note: 2024 unallocated budget includes funding for the 2024 compensation and benefits proposals which will be reallocated to departments in April 2024, as well as the estimated Performance Based Compensation pool. This table reflects the most recent structure of the Bank with restated historic data in relation to reorganisations/restructuring, where applicable.

Table A.4: HQ and RO Occupancy (£ million)

Administrative expenses	2023 Budget	2024 Budget	2024 vs 2023 £ million	2024 vs 2023 Per cent
HQ Occupancy	11.4	13.3	1.9	16.5%
HQ Lease Depreciation	12.1	12.2	0.0	0.1%
HQ Fixed Asset Depreciation	8.1	7.7	(0.4)	(4.7%)
Subtotal - HQ Occupancy	**31.6**	**33.2**	**1.5**	**4.8%**
RO Occupancy	1.9	2.2	0.3	17.9%
RO Lease Depreciation	6.0	6.4	0.4	6.2%
RO Fixed Asset Depreciation	1.7	2.1	0.4	26.6%
Subtotal - RO Occupancy	**9.6**	**10.7**	**1.2**	**12.1%**
Total HQ and RO Occupancy	**41.2**	**43.9**	**2.7**	**6.5%**

Table A.5 Net New Resources for Priority Investments, 2024-26 (£ million)

	2024 Request	2025 Estimate	2026 Estimate	2024-26 Total
War on Ukraine				
Admin Expenses (£ million)	2.4	2.4	2.4	**7.1**
Headcount (average)	10	10	10	**10**
Reinforcing Delivery				
Admin Expenses (£ million)	0.6	0.6	0.6	**1.9**
Headcount (average)	8	8	8	**8**
SCF Priorities - Green				
Admin Expenses (£ million)	0.4	0.4	0.4	**1.2**
Headcount (average)	1	1	1	**1**
SCF Priorities - Digitalisation				
Admin Expenses (£ million)	1.0	1.0	1.0	**2.9**
Headcount (average)	4	4	4	**4**
SCF Priorities - Equality of Opportunity				
Admin Expenses (£ million)	0.1	0.1	0.1	**0.2**
Headcount (average)	-	-	-	**0**
Total Priorities				
Admin Expenses (£ million)	**4.4**	**4.4**	**4.4**	**13.3**
Headcount (average)	**23**	**23**	**23**	**23**

Note: Numbers are rounded to one decimal point and sum of subtotals may not exactly add up to aggregate numbers.

Table A.6: Efficiencies by Enablers 2024 - 2026 (£ million)

	2024 Request	2025 Estimate	2026 Estimate	2024-26 Total
Spans & Layers				
Admin Expenses (£ million)	(1.1)	(1.1)	(1.1)	**(3.2)**
Headcount (average)	(4)	(4)	(4)	**(4)**
Workload Reallocation				
Admin Expenses (£ million)	(4.4)	(4.4)	(4.4)	**(13.3)**
Headcount (average)	(69)	(69)	(69)	**(69)**
Commercial Savings				
Admin Expenses (£ million)	(1.2)	(1.2)	(1.2)	**(3.7)**
Headcount (average)	-	-	-	-
Stopping an Activity				
Admin Expenses (£ million)	(0.0)	(0.0)	(0.0)	**(0.1)**
Headcount (average)	-	-	-	-
Additional Efficiency Measures				
Admin Expenses (£ million)	(1.0)	(1.0)	(1.0)	**(3.0)**
Headcount (average)	-	-	-	-
Total Efficiencies				
Admin Expenses (£ million)	**(7.8)**	**(7.8)**	**(7.8)**	**(23.3)**
Headcount (average)	**(73)**	**(73)**	**(73)**	**(73)**

Glossary

ABI – Annual Bank Investment
AMI – Annual Mobilised Investment
CAP – Capital Adequacy Policy
CEB – central Europe and the Baltic states
EEC – eastern Europe and the Caucasus
EOS – Equality of Opportunity Strategy
ETCs – early transition countries
ETI – Expected transition impact
FI – financial institution
FLTT – financial loss tolerance threshold
FTE – full time equivalent
GCI – general capital increase
GET – green economy transition
GEFF – Green Economy Finance Facility
IFI – international financial institution
IPM – investment profitability model
KPI – key performance indicator
MYIP – Multi-Year Investment Plan
NDCs – nationally determined contributions
OCI – other comprehensive income
PD – probability of default
PTI – portfolio transition impact
RAROC – risk-adjusted return on capital
RO – resident office
RoRC – return on required capital
SCF – Strategic and Capital Framework
SEE – south-eastern Europe
SEMED – southern and eastern Mediterranean
SPGE – Strategy for the Promotion of Gender Equality
URA programme – Ukraine Reform Architecture programme